Austria	Sch30	Iran	Rls210	Pakistan	Rs35
Bahrain	Din0.900	Israel	Shk4.00	Philippines	Peo40
Belgium	BFr60	Italy	L2200	Poland	Zl 11,000
Cyprus	C£1.00	Jordan	JD1.20	Portugal	Es165
Denmark	DKr13	Korea	Won 2000	Qatar	QR10.00
Egypt	E£3.50	Kuwait	Fils.500	S.Arabia	SR8.00
Finland	FM8.50	Lebanon	L£1,000	Singapore	S$4.10
France	FFr7.50	Lux	LFr60	Spain	Pta175
Germany	DM3.00	Malaysia	M$4.50	Sweden	SKr13
Greece	Dr200	Morocco	MDh10	Switz	SFr2.70
Hungary	Ft145	Neth	Fl 3.50	Thailand	Bht50
Iceland	IKr180	Nigeria	Naira15	Tunisia	Din0.800
India	Rs20	Norway	NKr13.00	Turkey	L3000
Indonesia	Rp3100	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,404

Friday March 15 1991

D 8523A

PHILIPPINES

Gold digging the second time around

Page 28

World News

Bonn anger at Moscow over transfer of Honecker

Germany, accusing Moscow of violating international law, called for the return of former East German communist leader Erich Honecker from Moscow, where he was transferred from east Germany for health treatment. Honecker, 78, faces manslaughter charges.

Yugoslav warning

Opposition members in Yugoslavia said they would take their protests back on to the streets unless the Communist government of the Yugoslav republic of Serbia resigned. Page 4

China, UK disagree

China and Britain ended three days of talks on Hong Kong, unable to agree on a court of final appeal for the colony or on arrangements for its defence after it reverts to Chinese sovereignty in 1997.

Girder crushes cars

At least 14 people died when a section of elevated railway under construction came crashing down in Hiroshima, western Japan. A 40-tonne girder crushed a line of cars.

Marcos offer

A Manila announcement that Mrs Imelda Marcos might be allowed to re-enter the Philippines next month to stand trial on corruption charges was welcomed by her lawyer.

Walvis Bay talks

South Africa entered into talks with Namibia for the first time about the future of Walvis Bay its deep-water port enclave and military base.

Vietnam's guest

General Sunthorn Kongsompong, head of Thailand's new military junta plans to visit Vietnam soon although the two are on opposite sides in the Cambodian conflict. He said they hoped to exchange defence attachés.

Rice upsets Japan

A Japanese farm group has asked police to prosecute a US rice industry group for illegally displaying imported samples of rice at a food trade fair in Tokyo.

Freedom hint

An Iranian newspaper hinted that British businessman Roger Cooper, in prison in Tehran on spy charges for more than five years, could be freed in a few days. Page 2

Italian poll threat

First signs of an Italian political crisis threatened the 20-month-old coalition led by Giulio Andreotti when Bettino Craxi, the Socialist party leader, called for the formation of a new government if early elections are to be avoided. Page 6

Romania protests

Romania voiced concern that extra troops may have been sent to the rebel Soviet republic of Moldavia to force its predominantly ethnic Romanian population to vote in a referendum about the future of the Soviet Union. Loaded questions, Page 4

Ferries collide

Fire broke out in the engine room of the Danish ferry Dronning Margrethe after it collided with a Finnish ferry in thick fog in the busy Femern Belt waterway at the mouth of the Baltic. One of the Danish crew was missing.

US gun toll

Nearly half of black US males aged 15 to 19 who died in 1988 were killed with guns, Health and Human Services Secretary Louis Sullivan told a conference in Hampton, Virginia.

Malawi flood deaths

The worst floods in Malawi's recent history have killed more than 470 people in the southern Mulanje district.

Business Summary

Swissair loses SFr22m as net earnings fall by 95%

Swissair reported a 95 per cent plunge to SFr4.3m ($3.1m) in 1990 net earnings and plans to pass its dividend. A consolidated group loss of SFr22m was recorded. Page 19

MARKETS: In Frankfurt the DAX index ended up 34.36 or 2.2 per cent to 1,576.55. In New York, the Dow Jones Industrial Average was up 23.76 at 2978.96 at mid-session. In Tokyo the Nikkei average closed up 124.01 at 26,542.33. World Stock Market reports, Back page, Section II

HONDA Motor, the Japanese carmaker, announced a radical corporate reorganisation, including the division of its car, motorcycle and power products operations into three separate operations. Page 19

KLEINWORT Benson, one of London's few remaining independent merchant banks, announced that BNP, the French state-owned bank, had taken a 4.8 per cent stake, and that it was preparing to discuss co-operation with BNP and Dresdner Bank, Germany's second largest. Page 19

US commercial bank profits fell further at the end of last year as a result of large write-offs on domestic loans, but the number of problem banks and failures decreased. Page 3

POLLY PECK International came close to making a agreed takeover offer for International Leisure Group last summer, when the UK travel company reacted to its worsening financial position by asking a US investment bank to find it a partner. Page 18

LEGAL & General, the UK life and general insurer, surged ahead finishing the day 37 pence up at 460 pence on the London market. Page 19; Lex, Page 18.

SPAIN: a fall in consumer prices has brought annualised inflation down from 6.7 per cent in January to 5.9 per cent. Page 18

DAIEI, the leading Japanese retail group, moved a step closer towards dismembering parts of Shuwa, the debt-laden property and stock market group. Page 21

SOUTH Korea's two largest electronics companies reported mixed results for last year, as strong domestic sales was offset by sluggish exports and a downturn in the international semiconductor cycle. Page 21

VARITY, Toronto-based farm, industrial and automotive equipment maker, announced net income of $101.5m for the year to Jan 31. Page 19

NOMURA Research Institute, research arm of Japanese financial group Nomura Securities, expects Japanese corporate profits to rise by an average 2.1 per cent in the year to March 31 1992. Page 19

ZAMBIA obtained an interest-free loan of $200m from the Bank of England – and paid it back 72 minutes later. Page 2

DAYTON Hudson, one of the five largest US retailers, yesterday reported a fall in fourth-quarter profits, to $235m from $250m after tax. Page 22

BANK of China and the Hongkong and Shanghai Banking Corporation have joined Dai-Ichi Kangyo Bank of Japan as managers for an $800m loan facility for a toll road from Hong Kong to the Guangzhou. Page 6

ACE, British Association of Consulting Engineers, said UK consulting engineers last year won contracts on international construction projects worth £16bn ($29.6bn). Page 6

SEAGRAM, one of the world's top four drinks groups, has posted a jump in profits for the fourth quarter and for fiscal 1991. Page 22

World stock markets rise as London hits record high

STOCK markets rose strongly yesterday, with European bourses recording rises of 2 per cent and a lively morning on Wall Street, write Terry Byland and William Cochrane in London.

The London market set a new record yesterday, with the FT-SE index closing above 2,500 for the first time.

The index closed at 2,500.6, well above the previous highest close of 2,463.7, in January 1990.

Wall Street had a good morning, with the Dow Jones Industrial Average peaking at 2,991.09, up 35.89. The index had already risen by 32.68 on Wednesday.

Traders were once more eyeing the 3,000 level for the Dow, and investors were focusing on the prospects for lower interest rates and a revival of the US economy.

Yesterday's New York buying was reinforced by investment institutions covering their positions ahead of today's "triple witching hour", when March stock index futures, index options and options on individual stocks all expire.

In the afternoon, the advance showed some signs of losing momentum, but the index subsequently regained ground and was still more than 20 points ahead at 1.45pm, or 18.45 GMT.

Continental bourses followed the US despite the advice of international equity strategists who say that US and UK shares have risen because they are relatively cheap.

Germany's DAX index rose 2.2 per cent, despite concerns about a deterioration in the domestic business climate.

France's CAC 40 also rose by 2 per cent.

The FT-SE Eurotrack 100 index finished up 19.36, or 1.8 per cent better, at 1,093.53 in the post bourse, against its record high of 1,103.29 a week ago.

The best rise among senior Continental markets was the 2.4 per cent gain in Amsterdam.

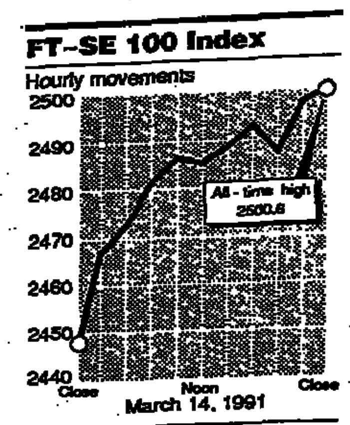
As in Frankfurt, the rises were technically based, influenced by the closing of options and futures contracts which might have left traders embarrassingly short of stock.

London's rise was strongly influenced by expectations of a further early cut in UK interest rates. Contributing to the optimism about UK base rates were signs of a further easing in Spanish interest rates, a slight slowing in UK wage pressures and even the increase in British unemployment.

Yesterday's rise in London was broadly based and was led by the blue chip internationals, with ICI, Glaxo and Unilever standing out.

The London market closed strongly and momentum was continued in stock index futures dealing, where further gains were achieved in very late trades.

Markets, Back Page, Section II; UK unemployment hits 2m, Page 7



Thomson and BAe freeze merger plan for missile sectors

By William Dawkins in Paris

THOMSON-CSF of France, Europe's leading defence electronics group, and British Aerospace yesterday postponed indefinitely plans to pool their missile businesses.

The merged company would have been the dominant European manufacturer of guided weapons, with an expected turnover of about £1.4bn ($2.6bn) a year and about 12,000 employees.

The setback was blamed on upheavals in the defence market caused by the Gulf crisis.

There was no indication that the planned joint venture, which was to be called Eurodynamics, was likely be resuscitated in the near future.

However, the two companies said they would continue to co-operate on joint missile programmes already under way and would "actively seek" further opportunities.

Negotiations on setting up the Eurodynamics venture slowed with the outbreak of the Gulf conflict and the UK government's decision to refer the plan to the Monopolies and Mergers Commission last September.

In the meantime, Thomson-CSF won a FFr3bn ($550m) order for air defence missiles from Saudi Arabia late last year, upsetting the sales balance between the prospective partners. By the time the Monopolies and Mergers commission gave its go-ahead in January, the groups had agreed to delay operations for several months and defence analysts were speculating on an indefinite freeze.

Mr Alain Gomez, chairman of Thomson-CSF, said he did not exclude restarting talks but both sides agreed that they wanted to see how the market for missiles would evolve in the wake of the Gulf war and east-west détente.

At the same time, the French state-controlled group announced that it would take a 50 per cent stake in Pilkington Optronics, a subsidiary of Britain's Pilkington glass group making electro-optical products for the defence market.

In contrast to missiles, which depended on defence programmes that could easily change, electro-optical technology was applicable across a wide range of military equipment, Mr Gomez said.

Thomson-CSF said the deal, worth just over £15m, would lift it from the world's fifth to the fourth largest producer of optronics, and make it the largest in the sector in Europe.

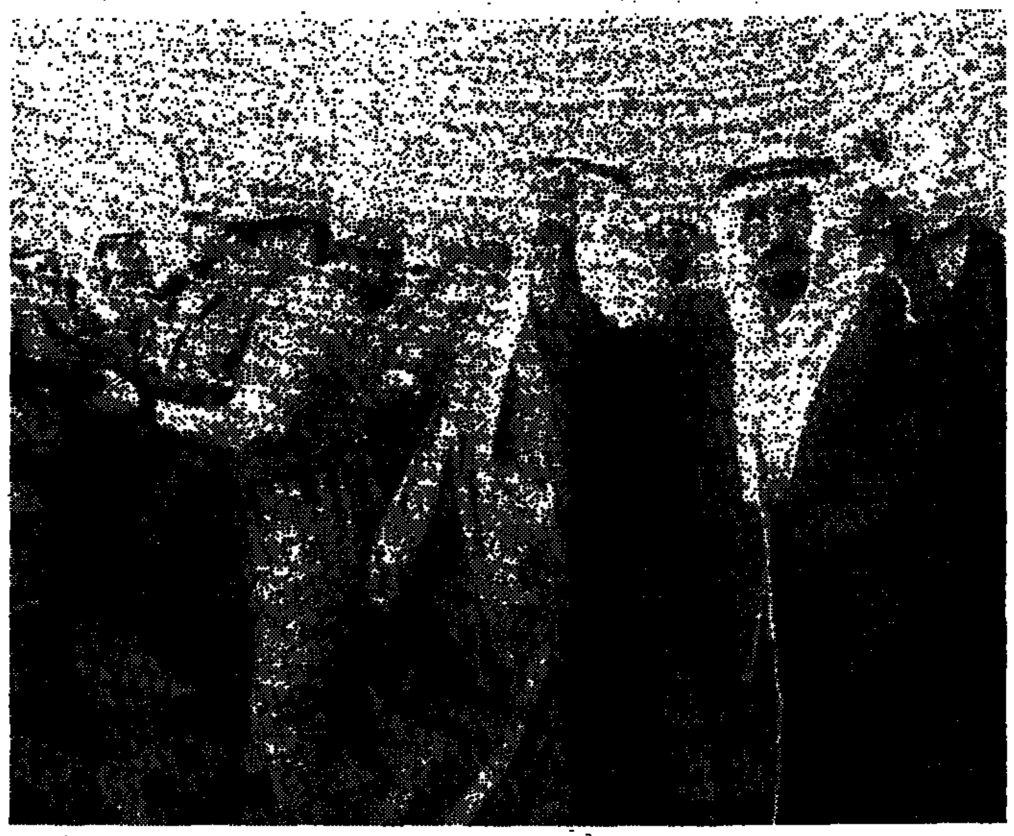
The company's products in the field include infra-red night sights, laser-bomb and missile-aiming gear, night binoculars and thermal-imaging systems. Thomson-CSF said it wanted to be well placed to supply an expected increase in demand.

The French group has been building up its optronics division since last year, when it took over the European defence interests of Philips, the troubled Dutch electronics group. That included TRT, a French based optical electronics maker.

The group's new optronics division, Thomson-TRT Défense, has a FFr1.2bn turnover - 3 per cent of the group total - and a staff of 1,200. Pilkington Optronics, with sales of £83m in the year to last March 31, has 2,100 employees in Wales and Scotland. It specialises in submarine periscopes, components for head-up displays, tank sights, night-vision equipment and infra-red systems.

Thomson-CSF will manage its French optronics separately, while Pilkington will continue to manage Pilkington Optronics, whose board will be split equally between the French and British partners.

Thomson-CSF is also attempting to renegotiate the price it paid for Philips' defence interests. Thomson is understood to claim the order book is smaller than was expected when the deal was agreed. The purchase price has never been revealed.



The Emir of Kuwait receives a military escort on arriving home after seven months' exile

US tries to rebuild Iran links

By Lionel Barber in Washington

THE US is seeking to rebuild relations with Iran, shattered by the overthrow of the Shah more than a decade ago, and wants direct talks on the six American hostages in Lebanon.

The administration is supporting a $250m World Bank loan for earthquake relief in Iran. Other conciliatory moves include the partial lifting of the ban on US oil companies purchasing Iranian oil.

The World Bank loan, expected to be approved in Washington yesterday, would be the first time the multilateral agency has lent money to Tehran since 1978. It could pave the way for further loans to help Iranian reconstruction after the Iran-Iraq war, officials said.

The US policy has become more urgent in the wake of the Gulf war, which crushed Iraq's pretensions as a regional superpower but raised the threat of a power vacuum in the Gulf. Washington sees Iran increasingly as an important player in future security arrangements for the Gulf.

Officially, the administration insists that relations with Iran can only improve with the release of American hostages in Lebanon and the end of Iranian support for terrorism.

Iran has rebuffed US overtures but the administration has sought to improve relations through low-key gestures.

Last December, it decided that US oil companies could buy Iranian oil if they applied for a licence at the Office of Foreign Assets Control at the US Treasury. The new and eased policy has just been announced in detail in the Federal Register, the official record of government activity.

Continued on page 18

Successful appeal prompts review of British justice

By Robert Rice in London and Kieran Cooke in Dublin

BRITAIN yesterday set up a Royal Commission to investigate its criminal justice system after six men who had been jailed for life in 1975 for a bomb attack a year earlier had their convictions quashed.

The release of the six, who had spent 16 years in prison for the November 1974 pub bombings in Birmingham, central England, in which 21 people were killed and 162 injured, brings to a close one of the most disputed cases in British legal history.

The Irish Republican Army (IRA), fighting to end British rule in Northern Ireland, claimed responsibility for the attacks, but always maintained that none of the six men convicted were members of the organisation.

Lord Justice Lloyd, presiding over the Court of Appeal hearing at the Old Bailey, London, said that in the light of fresh evidence which had become available since the men's last hearing in 1987, their appeals would be allowed and they were free to go. The judge said the Court would give the reasons for its decision later.

The government immediately announced the establishment of a Royal Commission on criminal justice, under the chairmanship of Lord Runciman of Doxford. It will cover all stages of the criminal process.

Mr Kenneth Baker, home secretary, said he was sure a "major reform bill" would flow from the commission's report.

This is the third time in 18 months that the criminal justice system has had to admit to a major miscarriage of justice. All three cases – the Guildford Four, the related case of the Maguire Seven and now the Birmingham Six – arose out of the IRA bombing campaign in mainland Britain of 1974-75.

The men's release had been seen as a foregone conclusion since Sir Allan Green QC, the director of public prosecutions, announced last month that the Crown no longer sought to uphold their convictions as "safe and satisfactory".

During the nine day appeal the court heard that the two main planks of the case against the men had collapsed. Scientific evidence which purported to show that two of them had handled explosives had been discredited. Investigating police officers were shown to have tampered with confession evidence and altered interview notes.

The Irish government welcomed the men's release. The case has soured Anglo-Irish relations for years.

In a statement it said: "Nothing can recompense the men for their lost years but an immediate first step at this stage must be for the British authorities to ensure that the level of compensation paid to the six is commensurate with the scale of the injustice endured by them and their families".

Earlier Mr Charles Haughey, the Irish prime minister, had said that despite the circumstances surrounding the Birmingham Six case, extradition procedures between Ireland and Britain would continue.

Picture, Ulster talks, Page 7; Dim image of British justice, Page 17

Northern Ireland's political leaders are being challenged to accept or reject by Easter plans for talks on the province's political future, in a calculated gamble by the British government.

The Irish republic last night agreed to proposals set out by Mr Peter Brooke, Northern Ireland secretary, for talks covering devolved government in the province and alternatives to the 1985 Anglo-Irish agreement.

Report, Page 7

CONTENTS

Agreement stalled on EC for investment services

European Community competition commissioner Sir Leon Brittan faces frustration over plans to liberalise the market for investment services depite early promise of compromise

Page 25

MARKETS

STERLING
New York lunchtime:
$1.856
London:
$1.8565 (1.857)
DM2.93 (2.9275)
FFr9.9875 (9.9825)
SFr2.54 (2.5425)
Y252.5 (253.25)
£ index 93.3 (same)

GOLD
New York: Comex Apr
$366.3 (368.1)
London:
$364.95 (366.8)

N SEA OIL (Argus)
Brent May
$18.85 (+0.1)

Chief price changes yesterday: Page 19

DOLLAR
New York lunchtime:
DM1.579
FFr5.3935
SFr1.373
Y136.35
London:
DM1.5785 (1.5765)
FFr5.38 (5.375)
SFr1.368 (1.369)
Y135.95 (136.4)
$ index 63.0 (63.1)
Tokyo close: Y135.65

US lunchtime rates
Fed Funds 5.81%
3-mo Treasury Bills: yield: 5.95%
Long Bond: $96\frac{1}{4}$
yield: 8.21%

STOCK INDICES
FT-SE 100:
2,500.6 (+52.4)
FT Ordinary:
1,999.5 (+46.4)
FT-A All-Share:
1,218.23 (+1.9%)
New York lunchtime:
DJ Ind. Av.
2,976.24 (+21.04)
S&P Comp
376.26 (+1.69)
Tokyo: Nikkei
26,542.33 (+124.01)

LONDON MONEY
3-month interbank:
closing $12\frac{3}{32}$% ($12\frac{3}{8}$)
Life long gilt future:
Jun $91\frac{5}{32}$ (91)

هكذا من الاصل

Emir of Kuwait returns to battered homeland

By Michael Field in Kuwait

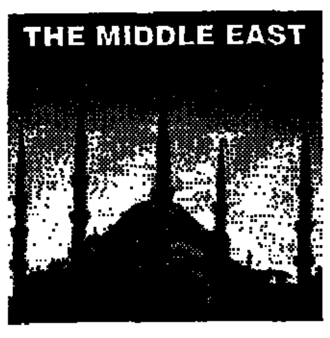
SHEIKH Jaber Ahmed Al-Sabah, the Emir of Kuwait, returned to his devastated homeland yesterday to a low-key welcome two weeks to the day after the Gulf war ended.

There were few Kuwaitis on the streets leading to the airport to greet their ruler, though this may have been because little had been done to broadcast his return.

The emir, who fled to the mountain resort of Taif in neighbouring Saudi Arabia as Iraqi troops invaded, faces a tough task in rebuilding his once opulent country. He is also under pressure from the allies and many of his countrymen to introduce sweeping political reforms.

In the last two days the mood in Kuwait has become increasingly uneasy. There are reports, some confirmed by diplomatic and military sources, of small numbers of Palestinians being killed each day and many more being taken into custody.

At least half a dozen vigilante gangs have been formed, some by Palestinians for their own "defence", others by young members of the ruling family and others by resistance groups that sprang up during



the Iraqi occupation.

People living near one of the big cemeteries south of Kuwait City say a small number of bodies are arriving there each day. Most are Palestinians, but often there are two or three Iraqi soldiers who have been caught in their hiding places, and one or two Kuwaitis, who it is claimed were potential opposition leaders killed by young members of the ruling family.

At check points thoughout the city the soldiers, Kuwaiti military police, other regular bedouin units and resistance members who have been temporarily absorbed into the army are becoming less friendly. A week ago any westerner was waved through with smiles and V for Victory signs, while others had to queue to be cross-examined on their identities.

The prime minister, Sheikh Saad Abdullah, and other senior members of the Al-Sabah family, who have taken up residence in the house of the Al-Shaya family, owners of the burnt-out Sheraton Hotel, are trying rein in vigilantes from both their own family and the resistance.

The resistance leaders are different from the leaders of the old parliamentary opposition factions. They are younger, armed, and though not necessarily more radical or fundamentalist are often less patient.

The prime minister has promised to bring back Kuwait's parliament, dissolved in 1986, reinstate the relatively liberal 1962 constitution and possibly give votes to women, but Kuwaitis are not convinced the ruling family really understands that democracy means having to tolerate obstruction and criticism from its opponents.

The promise by the emir to give every Kuwaiti citizen who stayed during the occupation KD500 – over £1,000 – reminds them of the old policy of trying to buy off criticism.

New currency for Kuwaitis

KUWAIT will issue a new currency, perhaps within 10 days, to replace the pre-invasion dinar, central bank governor Sheikh Salem Abdul-Aziz Saud al-Sabah said yesterday, Reuter reports from Kuwait.

All deposits in Kuwaiti banks at the close of business on August 1 1990 – the eve of Iraq's invasion – would be honoured, he said.

Old Kuwaiti dinars held by the public in cash would be exchanged at par. Sheikh Salem said the central bank would take no responsibility for Iraqi dinars held by the public still in use to buy the few goods available in war-damaged Kuwait. After the conquest Iraq put the Kuwaiti currency on a par with the Iraqi currency.

The Kuwait dinar had been worth just over $3 (£1.60), while the Iraqi dinar was worth about 30 US cents.

"The exchange rate of the new currency will be dealt with within two weeks," the central bank chief said.

A top priority was to reopen central bank units and bank branches in Kuwait so the new currency could be distributed. Officials are also trying to restart the computer centres of commercial banks to obtain full customer records.

Kuwait is still without mains electricity, running water and most telephones. Shops and banks remain closed. Old Kuwaiti dinars, Iraqi dinars and US dollars are all in use in the small amount of business being conducted.

Kuwait aimed to streamline its banking system with three or four big banks, but mergers would take time because of a shortage of details about the financial position of each bank, the governor said.

Sheikh Salem said Iraqi troops looted Kuwaiti dinars 375m in cash from central bank vaults and stole gold bullion worth an estimated $950m.

Details of money looted from other banks were still sketchy.

Population to be cut by half

KUWAIT plans to halve its population to about a million to ensure that Kuwaiti nationals form a majority, western diplomats said yesterday, Reuter reports from Kuwait.

Hundreds of thousands of foreign workers who fled often-lowly jobs in the wealthy Gulf emirate after Iraq's invasion last August 2 will not be allowed to return.

The diplomats, who quoted government sources, said the number of Kuwaitis permanently resident at home would stabilise at about 550,000.

Palestinians would form the second largest community, with about 200,000. The balance would be made up of migrant workers from Egypt, the Indian subcontinent and Asia, together with several thousand European and US managers and oil specialists.

One diplomat said the current population was no more than half a million, compared with 1.7m before the Gulf War.

"Most of them are in Kuwait city and a majority are Kuwaiti nationals," he said. "The government will want to keep it that way."

The authorities are determined to prevent a return to the population mix before the seven-month Iraqi occupation, when Kuwaitis were a minority of between 30 and 40 per cent in their own country. Thousands of Kuwaitis are normally abroad at any one time.

Mr Suleiman Mutawa, planning minister, said there could "be no going back to the Kuwait of August 1 – fat and flabby and relying on the state." The message from the authorities is that the affluent Kuwaitis, mostly accustomed to managerial sinecures or soft jobs in the bloated government apparatus with its short working day, are going to have to work harder in future – or even just work.

Diplomats said thousands of people could be shaken out of government service and employed in more productive sectors of the economy.

Baker: 'It is still early at this stage to speak about a breakthrough'

Baker sees 'window of peace'

By Tony Walker in Cairo

Mr James Baker, the US Secretary of State, pledged yesterday that America would "do whatever it can" to persuade Israel to be more flexible in the cause of Middle East peace.

Speaking after lengthy talks with Syrian officials in Damascus, including a marathon seven-hour session on Wednesday night with President Hafez al-Assad, Mr Baker said he detected a "window for peace" in the Middle East.

"I saw a serious desire to work for achieving peace. There was an agreement to seek a comprehensive settlement to solve the Arab-Israeli conflict on the basis of UN Resolutions 242 and 338," the US official told reporters at Damascus airport before leaving for Moscow.

Israel's hardline leadership has, however, repeatedly rejected the key Security Council resolutions – long the basis of US peacemaking in the Middle East – which call for Israel's withdrawal from occupied Arab land to pre-1967 war frontier.

Mr Baker, who visited Saudi Arabia, Kuwait, Egypt and Israel before ending his Middle East tour in Syria, said there had been no breakthrough during his mission.

Mr Baker said he was confident that US influence with Israel would produce "something," but "it is still early at this stage to speak about a breakthrough."

Seoul seeks large share of rebuilding

SOUTH KOREA says it is on course for a large share of post-war rehabilitation projects in Kuwait, Reuter reports from Seoul.

"The opportunities are out there. Now it depends on how competitive and determined our companies are," said a senior Foreign Ministry official who recently returned from a government fact-finding mission to the Gulf. "The Kuwaitis said we had a better chance of winning contracts than other Asian countries because of our (Gulf war) support," the official said.

South Korea sent over 300 military medical and air force transport personnel, and contributed 500 mln dlrs to help the US-led coalition evict Iraq from Kuwait.

● Up to 100,000 Thai workers have registered to work in the Middle East since the Gulf war ended, labour officials said yesterday, Reuter reports. The Labour Department hoped to send an initial group of 100,000 workers. As many as 130,000 Thai workers are in the region.

Iraqis 'capture 7 towns' in Babylon

IRAQI rebels battling to oust President Saddam Hussein say they have captured the main city and seven towns in Iraq's central Babylon province and have executed the provincial governor and other senior officials, Reuter reports from Nicosia.

They said many of Mr Saddam's formidable Republican Guard were defecting to join their forces.

It was impossible to verify the reports. Iraq has expelled all foreign journalists.

Yesterday the Iraqi news agency INA said reports on Wednesday of clashes between Iraqi troops and demonstrators in the capital Baghdad were "fabricated, baseless and completely unfounded."

Meanwhile, a senior member of the US Senate Armed Services Committee predicted that the unrest would slow withdrawal of the 127,000 US troops still on Iraqi soil.

Senator William Cohen said it would be "irresponsible for us to simply pull out and then let the (Iraqi) forces consume themselves without any direction or assistance or encouragement by the United States."

Hizbollah radio in Lebanon, quoting a communique from the Supreme Council for the Islamic Revolution said rebels had taken control of Babylon's capital Hilla, 60 miles south of Baghdad.

The rebels had also seized the surrounding towns of Iskandariya, Mahmudiya, Musayyib, Yusufiya, Hindiya, Qasim and Hamza.

Monitored by the British Broadcasting Corporation it said the rebels had executed the provincial governor Adnan Hussein, the chief of police, the provincial head of the ruling Baath party and the Hilla security chief.

Iraq admitted on Wednesday for the first time that the country faced a series of uprisings and Tehran radio reported street protests in Baghdad.

The US State Department said the Baghdad unrest began on Tuesday, probably in Shia neighbourhoods in the eastern part of the capital.

Further south, Iraqi opposition radio in Basra, Iraq's second largest city and a centre of the two-week revolt, said rebels repulsed a Republican Guard attack, destroying 20 tanks and armoured vehicles, Tehran Radio reported.

In Beirut, Sahib al-Hakim of the London-based Organisation of Human Rights in Iraq, told Visnews television agency:

"We are receiving news from inside Iraq that many members of the Republican Guards, either soldiers or officers, are joining now the Iraqi people... they surrender to them and then join them to fight the regime of Saddam Hussein."

Mr Hakim was among 325 Iraqi opposition leaders who ended a three-day conference in Beirut on Wednesday. He said many Iraqi POWs were refusing to be repatriated and the Iraqi government was hesitant about receiving them. "I think they (are) afraid those people may join the uprising."

Iran tries to attract foreign investment

IRAN has made the strongest commitment to its private sector to date, in an effort to attract foreign investment, reports Scheherazade Daneshkhu.

Mr Mehdi Navab, Iran's deputy minister of economic affairs and finance told a Business International conference in London, that it was never the intention of the Islamic Republic to keep industries permanently nationalised.

He blamed the war with Iraq for leaving the government straddled with public sector enterprises which had "distorted the balance" between the public and private sectors. The government was even considering moving banks back into the private sector, he said.

Mr Navab and his delegation – the most senior to attend a public conference of this type – presented the urbane and competent face of President Hashemi Rafsanjani's government, in an effort to build bridges with the international business community.

Mr Navab regretted the "misunderstanding" that had arisen between Iran and the West, and said the government would welcome foreign investors for private sector joint ventures from all countries other than Israel and South Africa. US companies have been trading directly with Iran but this is the first indication that they are welcome to invest in the country.

Mr Navab sought to reassure potential investors that Iranian law offers legal protection for private capital. Foreign investors will enjoy tax exemption and their products will not be subject to price controls.

"Everything is ready for foreigners to come to Iran", said Mr Ali Mananvi Rad of the central bank.

Mr Ali Manavi Rad, assistant to the executive board of the central Bank, said that Iran was reforming its fiscal policies after consultations with the IMF.

The 12-tier exchange rate system was cut down to three tiers in January. He said that price controls have been removed from the private sector, which has been offered credit by the government.

The decision to borrow from abroad, ratified by the majlis last year after a year's debate, also forms part of the new policies. The government is seeking $17.7bn in foreign credit (to comprise both the principal and interest) and a further $10bn in buyback deals.

N Korean leader shuns the limelight

John Ridding finds the way is being laid for the son and heir

CAN IT be that President Kim Il Sung, North Korea's hard-line ruler and subject of one of history's most extreme personality cults, is seeking a lower profile ?

Next year, to commemorate his 80th birthday, he will forego the statues, towers and monuments which traditionally mark the ending of a decade in the life of the "Great Leader". Instead, the big day will be marked by the opening of a new tram line and a new housing complex on Reunification Street.

"We were planning to build a huge bronze statue for his birthday," says Mr Shin Sok Hee, vice director of the Mansudae Arts Centre in Pyongyang, the nerve centre of North Korea's propagandist art industry.

"But when the Great Leader came to give us on-the-spot guidance on February 11 he ordered us to build a statue of working people instead," said a bemused Mr Shin.

There are several possible explanations for President Kim's newfound shyness. He may feel, after 45 years of self promotion, that enough is enough. His picture seems to hang from a wall in every building in North Korea and is pinned to the lapel of every jacket.

The world's longest serving ruler may also have been influenced by the fate of his totalitarian counterparts. "He has seen the statues of Lenin, Ceaucescu and Hoxha come tumbling down," says one diplomat stationed in Pyongyang. "This is bound to have made him a little nervous."

But perhaps the most plausible explanation is that North Korea's cult of personality is not waning, but merely shifting. Kim the elder may be moving aside for Kim the younger – his son and designated heir, the "Dear Leader" Kim Jong Il.

The first hereditary succession in a communist state has been gathering momentum for over a decade. Last year, however, the Dear Leader all but disappeared from the scene, as the spreading collapse of communism in Europe forced President Kim Il Sung to take a firm grip on the affairs of state.

But now, according to diplomats in Peking and Pyongyang, the Dear Leader's succession has been taken off the back burner. With the President Kim having weathered international storms, they believe the succession could take place as early as next year, when the younger Kim celebrates his 50th birthday.

So Kim Jong Il, rather than Kim Il Sung, is now taking centre stage – literally. In two successive evenings of Pyongyang theatre entertainment, it was the Dear, rather than Great, Leader who was honoured by artistic feats.

A concert at the Pyongyang Arts Theatre last week featured the Song of the Kim Jongilia – a flower, named after the Dear Leader, grown by a Japanese horticulturalist.

More significantly, a performance the following night by the acrobatic troupe of the People's Army of Korea, the most powerful institution in North Korean politics, featured a dance dedicated to the heir apparent.

Korea watchers in Peking and Pyongyang believe that such antics are necessary to buttress the Dear Leader's image. "He doesn't have the charisma of his father" says one. "He has to be energetically promoted."

Father and son: Kim Il Sung (left) with Kim Jong Il

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Australian unemployment at six-year high of 8.7%

By Kevin Brown in Sydney

AUSTRALIAN unemployment jumped to a six-year high of 8.7 per cent in February as the jobless total rose by 30,700 to 738,000, government statistics revealed yesterday.

The announcement will increase pressure on Mr Bob Hawke's Labor party government for a further cut in official interest rates, following a fall of six percentage points last year to around 12 per cent.

However, economists said the government was unlikely to ease monetary policy until after the release of the December-quarter national accounts next week.

The accounts are expected to show a small improvement in gross domestic product following two quarters of negative growth.

Ministers had prepared voters for even higher unemployment in February, and Mr Hawke warned in a statement on industry policy earlier this week that unemployment would continue to rise after the economy begins to recover.

Inflation rose to 6.9 per cent earlier this year after falling briefly below 6 per cent in 1990, but is expected to fall to around 5.5 per cent or less later this year.

The current account deficit is running at an annual rate of around A$17bn (£7bn) after seven months of the Australian financial year, compared to a record A$21bn last year.

UK businessman 'could be freed'

AN Iranian newspaper hinted yesterday that a British businessman jailed in Tehran on spy charges for more than five years could be freed in a few days, Reuter reports from Tehran.

The English-language Tehran Times, in a editorial on improved Iranian-British relations, said observers believed Mr Roger Cooper could be released within a week following the dropping of charges in London against Iranian student Merdad Kowkabi, who was accused of bombing a London bookshop selling copies of Salman Rushdie's controversial novel The Satanic Verses.

Mr Cooper has been held since 1985. Iranian authorities say he was put on trial and given a heavy sentence but have never provided details.

Bank of England helps Zambia keep its credit

By Mike Hall in Lusaka

ZAMBIA, one of the world's most indebted countries, yesterday obtained an interest-free loan of $200m (£108m) from the Bank of England – and paid it back 72 minutes later.

The loan, together with aid from western governments, enabled Zambia to pay the World Bank $325m in arrears on loan repayments, thus making the country eligible for new loans from the bank for the first time in four years.

Under Bretton Woods rules, member governments in arrears are unable to obtain new loan facilities.

As soon as the arrears were paid with the bridging loan, the government signed a $200m economic recovery credit with the World Bank, and the Bank of England was repaid.

In May 1987, the Zambian government halted all repayments to the World Bank and International Monetary Fund because of foreign exchange shortages and its rejection of economic reforms proposed by the international lending agencies.

The government embarked on its own reform programme and lost the support of most western governments which severely curtailed aid funding.

Mounting debt and deteriorating living standards forced the government to re-open negotiations with the IMF and World Bank in 1989.

NEWS IN BRIEF

Number of Japanese bankruptcies up 51%

Japanese bankruptcies for debts of over Y10m (£39,200) totalled 677 cases in February, up 51.1 per cent from a year earlier, said the Tokyo Commerce and Industry Research Company yesterday, Reuter reports from Tokyo.

February marked the fifth consecutive month in which the number of bankruptcies and amount of debt involved continued to rise above year-earlier levels. February bankruptcies also rose 5.0 per cent from January.

Wholesale price index falls

Japan's wholesale price index fell 0.4 per cent in February from a month earlier but rose 1.6 per cent from a year earlier to 91.2, the Bank of Japan said, Reuter reports from Tokyo. It was the first month-on-month decline in overall wholesale prices since they fell 0.1 per cent in July 1990, central bank figures show.

Bhutto says human rights violated

Ms Benazir Bhutto, Pakistan's former prime minister, yesterday accused the government of human rights violations against members of her Pakistan Peoples Party, writes Farhan Bokhari in Islamabad. She said that she had been forced to seek ways of opposing the government outside the parliament, but did not clearly say this meant street agitation. "I wanted to give them [the government] a honeymoon period," she said.

Cambodian talks in Peking

Cambodian guerrilla leaders began their final day of talks in Peking yesterday in agreement that a United Nations-sponsored peace plan was the best way to end Cambodia's 12-year civil war, Reuter reports from Peking. The peace plan has been stalled by Phnom Penh's refusal to disband its armed forces and administration. It says the Chinese-backed Khmer Rouge is storing weapons in Cambodia to prepare for armed takeover.

Thailand affected by drought

Nearly half of Thailand's provinces have been stricken by drought, which will worsen over the summer months, Thai officials said yesterday, Reuter reports from Bangkok. They said 2.5m people were short of water for drinking and feeding animals in 30 of Thailand's 73 provinces. Some 300,000 acres of crops were likely to be destroyed.

Foreign bank hopes in Vietnam

Foreign banks with representative offices in Vietnam say they may be licensed by the Hanoi government to carry out full banking operations by late 1991 or early 1992, Reuter reports from Ho Chi Minh City. Mr John Brinsden, the local representative for the Standard Chartered Bank, told a gathering of foreign businessmen that several of the seven foreign banks with offices in Vietnam were now discussing this with the Hanoi government.

AMERICAN NEWS

Fewer US bank failures in 1990

By Peter Riddell, US Editor, in Washington

US commercial bank profits fell further at the end of last year as a result of large write-offs on domestic loans, but the number of problem banks and failures decreased during 1990.

A new analysis by the Federal Deposit Insurance Corporation suggests that the number of US banks with serious problems remains limited and there is nothing comparable to the widespread weaknesses of the savings and loan business.

More than 87 per cent of the US's 12,340 banks remained profitable last year, while the number of failures dropped to 159 from 206 in 1989. The number of banks on the FDIC's "problem" list fell slightly to 1,012 from 1,092.

However, the number of larger banks with problems appears to have risen, and the totals set aside to cover expected loan loses increased again last year. At the end of last year some 2.9 per cent of all loans were not being paid on time or were so far overdue that banks had to repossess collateral assets.

The main problems were domestic, with fourth-quarter profits from home business of only \$1.1bn (£590m) the lowest since quarterly records began in 1983.

But write-offs on Third World loans were much smaller last year than in 1989, so overall profits for the year rose nearly \$1bn to \$16.6bn. In 1990 the banks' foreign loan loss reserve was just \$1.5bn, down from \$10bn in 1989.

● The House of Representatives finally, and narrowly, approved a compromise package to provide needed additional funding of \$30bn for the savings and loan rescue late on Wednesday. The deal followed the rejection on Tuesday of four alternative proposals to ensure that the rescue did not come to a virtual halt, which would have increased the losses by \$8m a day.

Collor unveils reconstruction plan for Brazil

By Christina Lamb in Brasilia

BRAZIL'S President Fernando Collor marks one year in office today with the unveiling of a radical National Reconstruction Plan to promote growth and investment and reduce the role of the state.

The announcement is a calculated attempt to recapture credibility and divert attention from the lack of concrete achievements of the administration's year-old economic adjustment plan.

The cost of Mr Collor's battle to bring down inflation from 84 per cent a month to 22 per cent was widely regarded as excessive. The economy contracted 4.6 per cent last year and in the first two months of 1991 alone more than 101,000 workers were laid off in São Paulo, Brazil's biggest city. According to the São Paulo Federation of Industries, Brazil is now in its worst recession for 47 years.

The price freeze imposed last month to curtail a new spiraling of inflation already seems to be collapsing, with many sectors, such as coffee and white goods, illegally increasing prices. A national strike by Brazil's 60,000 petrol workers is now in its 18th day, putting fuel supplies at risk.

The reconstruction project comes in response to a general feeling that the government has tried and failed to control inflation and now should do something about getting the economy moving.

Touching all areas of the economy, the plan focuses on stimulating growth through abolishing state monopolies in sectors such as ports, communications and fuel, ending all agricultural and industrial subsidies, and ensuring equal treatment for foreign and national investment. It also introduces profit-sharing schemes for workers, supertaxes on the rich and compulsory retirement at 60 and plans for 60,000 more public-sector dismissals this year.

Collor: year in office

Presenting the 100-page document to cabinet ministers and party leaders yesterday, President Collor called it "the first vision of what Brazil can be in the third millennium". Appealing for national understanding, he insisted: "No government can resolve the problems of society alone, only society can rescue itself."

His comments marked a significant change of tack from his previous approach, that of a "lone hunter stalking the inflation tiger". Instead of enforcing the plan by presidential decree, as with previous measures, Mr Collor presented it as "a collection of ideas to be discussed by society at all levels". Apparently last week's overwhelming Congress vote of 415 to 13 to curtail his powers of issuing laws by fiat has hit home, and in future the president intends more discussion.

The risk with Mr Collor's new approach is that many items in the new plan are likely to be rejected, particularly those requiring constitutional changes.

With no political base, the price President Collor may have to pay to win support for these measures could be extremely high.

Shift in US mood over S Africa sanctions

The anti-apartheid movement's dominance of policy is easing, writes Lionel Barber

SPIKE LEE, the young black film director, arrived wearing a Malcolm X baseball cap. A Hollywood actress, who played Winnie Mandela in a recent TV "docu-drama", stood by in a fur coat, surrounded by silver-haired relics of the 1960s civil rights movement.

Their mission: to lobby Mr Tom Foley, Democratic speaker of the House of Representatives, to continue support for US economic sanctions against South Africa. "Many chairs have been adjusted on the decks of the Titanic," said one elderly representative, "but nothing has changed in the lives of ordinary people in South Africa."

Just hours before, the South African government tabled draft legislation to scrap all laws enforcing racial discrimination in residential areas and land ownership. The abolition of these laws, expected to be effective by mid-July, would bring Pretoria close to meeting the five conditions for lifting US sanctions under the Comprehensive Anti-Apartheid Act of 1986.

This would not in itself restore normal trade and investment links, however. Some of the most effective sanctions have been imposed by state and local legislatures. Nearly half the states and more than 70 cities have taken actions ranging from selective purchasing and contracting in order to penalise companies with South African links, to disinvestment of funds from companies doing business with Pretoria.

These grassroots measures could well be sustained whatever Washington decides. Nevertheless, the prospect of the repeal of the Comprehensive Anti-Apartheid Act has alarmed the anti-apartheid movement in the US, which has enjoyed a virtual hammerlock on policy toward South Africa, thanks to majority support in Congress until recently for keeping sanctions in place.

But the mood on Capitol Hill is shifting, spurred by President F.W. de Klerk's moves to dismantle apartheid and a growing realisation that President George Bush intends to reward the South African president for his reform efforts, now officially described as "irreversible".

Last week, Mr Bush telephoned Mr Nelson Mandela, the African National Congress leader, informing him that he would soon consult Congress about lifting sanctions now that the South African government was close to complying with the 1986 Act.

Mr Mandela read out the ANC position on the Gulf, accusing Iraq and the multinational coalition of belligerent behaviour, but on sanctions he took a "do what you have to do" attitude, according to one US official.

Under the 1986 act, Mr Bush has the power to suspend or modify sanctions once four out of the five conditions are fulfilled. Most observers argue that Pretoria has met three conditions: lifting the state of emergency; entering "good faith negotiations" with the opposition; and legalising the ANC and other organisations.

Excluding the land tenure legislation tabled this week, the outstanding terms include the repeal of the Population Registration Act and the release of all political prisoners. The De Klerk government has pledged to resolve this last issue with the ANC by the end of April.

If all five conditions are met, the sanctions fall automatically. Increasingly, it appears that Mr Bush is leaning toward early, if only partial, lifting of sanctions as a goodwill gesture to Mr de Klerk which would match corresponding moves by the European Community.

Mr Bush, who has spoken regularly to Mr de Klerk since the South African leader visited the White House last September, wants to adopt measures which could be cast as improving contacts between the US and South Africa and helping black employment, according to a US official.

Mr Shawn McCormick, an African expert at the Centre for Strategic and International Studies, says the most likely steps are removing the ban on South African Airways' landing rights in the US, lifting restrictions on imports of South African agricultural products and relaxing curbs on new US investment.

The question turns on timing. The administration wants to ensure that influential senators such as Mr David Boren of Oklahoma, Democratic chairman of the intelligence committee, and Mrs Nancy Kassebaum, Republican member on the Senate Foreign Relations committee, are on board before it moves. At the same time, the White House and State Department need to calm fears within the executive branch that lifting sanctions could provoke congressional retaliation.

By lifting sanctions Mr Bush will re-assert executive branch control over South Africa policy, which Congress has dominated since 1986 when it imposed sanctions over President Ronald Reagan's veto.

"The question, increasingly, is what can Congress do to retain its influence," says Mr Witney Schneidman, a senior analyst at the Investor Responsibility Research Centre in Washington DC.

Mr Schneidman believes that informed members of the House and Senate are starting to address this question. But he cautions that lifting economic sanctions will still not restore the status quo ante: the Rangel amendment subjects US corporations in South Africa to double taxation; the Gramm amendment restricts South Africa's access to the International Monetary Fund.

If, as Mr Schneidman suspects, the argument has moved beyond sanctions to shaping a post-apartheid South Africa, these laws are likely to be the next focus of debate.

Retrial may be sought for Chicago futures traders

By Barbara Durr in Boca Raton

THE US government said yesterday it would seek to re-try a group of 12 yen futures traders acquitted on Wednesday on a majority of more than 200 fraud counts against them.

The jury, in Chicago, could not reach a verdict on 80 more counts, including racketeering charges against four of the 12, and it is on at least some these deadlocked charges that the government would seek fresh proceedings.

The results of the trial, the last of three important cases to arise from a two-year Federal Bureau of Investigation probe of the futures pits, is a severe blow for the US government. Prosecutors had charged that fraud was widespread in the futures pits, but in two of the three trials they have failed to prove it.

Mr Fred Foreman, the US attorney in Chicago, was undeterred by this week's setback. He pledged to continue "vigorously to investigate and prosecute the insidious crime of fraud in the exchanges".

However, officials of the Chicago Mercantile Exchange were rejoicing over the verdict. "After two years of investigation and two years of trial and trial preparation, our members have been – in large measure – exonerated," said Mr John Sandner, chairman of the CME.

The verdict has delighted the futures industry, which is gathered in Florida this week for its annual meeting. Industry officials are charging that several million US taxpayer dollars have been wasted on a government investigation that was overblown and has largely failed.

The government did, however, win 10 convictions in the two previous trials and many of the 48 traders indicted in the investigation have pleaded guilty.

Two other trials are also pending. Two yen traders are to be tried separately because their defence strategies conflicted with those of their colleagues. They contend that everyone bent or broke the rules and that they simply did what others did. Two Swiss franc traders are to be re-tried on a large number of counts on which their jury could not decide.

US inventories rise as sales drop

US BUSINESS inventories rose in January as sales fell, indicating that more production cuts will be needed to balance demand and supply, Michael Prowse writes from Washington.

The Commerce Department said the combined value of manufacturers' shipments and sales in the retail and wholesale trades fell 1.2 per cent between December and January to \$523.6bn (£283bn). Year-on-year decline was 1 per cent.

Inventories in the manufacturing and distributive trades rose 0.4 per cent to \$814.4bn, 2.2 per cent above the level of January, 1990.

The ratio of inventories to sales rose from 1.53 to 1.56, the highest level since early 1987. This was the second successive sharp monthly increase in the ratio and a sign that the recession was biting hard in January.

Many economists are forecasting a mild recession because companies have kept relatively tight control of inventories. The rising ratio of inventories to sales indicates that industrial output has not been cut fast enough to keep pace with falling demand.

Decision on TV re-runs deferred

THE long-awaited decision by the Federal Communications Commission on whether television networks should continue to be prevented from entering the highly profitable television re-run and syndication business has been deferred, at the request of the Justice Department, which wants more time to review the proposed new rules, writes Peter Riddell.

At present the networks are barred from controlling the syndication rights to re-runs of programmes if they are shown on independent television stations. The profits now go to Hollywood's studios and producers.

A 3-2 majority of commissioners had been preparing to allow the networks very limited authority to enter the \$3bn-plus rerun market, requiring them to buy at least 60 per cent of prime-time schedule from outside producers.

Against the fierce opposition of the Motion Picture Association of America, the networks (ABC, CBS, NBC and Fox) had pressed for the right to produce shows they can sell on the re-run market after a first prime-time showing.

Gorbachev's hasty gamble

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev's referendum this Sunday on the preservation of the Soviet Union should have been a foregone conclusion.

Surely a clear majority of the nation, and above all of Russia, the Motherland, would not dream of dismantling the empire? There may be a few rebellious outlying republics which want to quit, but the Soviet leader and his aides calculated that a plea for national unity was the one issue on which they could be sure of a positive response from the mass of the people.

In the event, the first-ever referendum in Soviet history is beginning to look increasingly like a gamble, its outcome messy, meaningless, and quite possibly counter-productive for all who hope to keep the country intact.

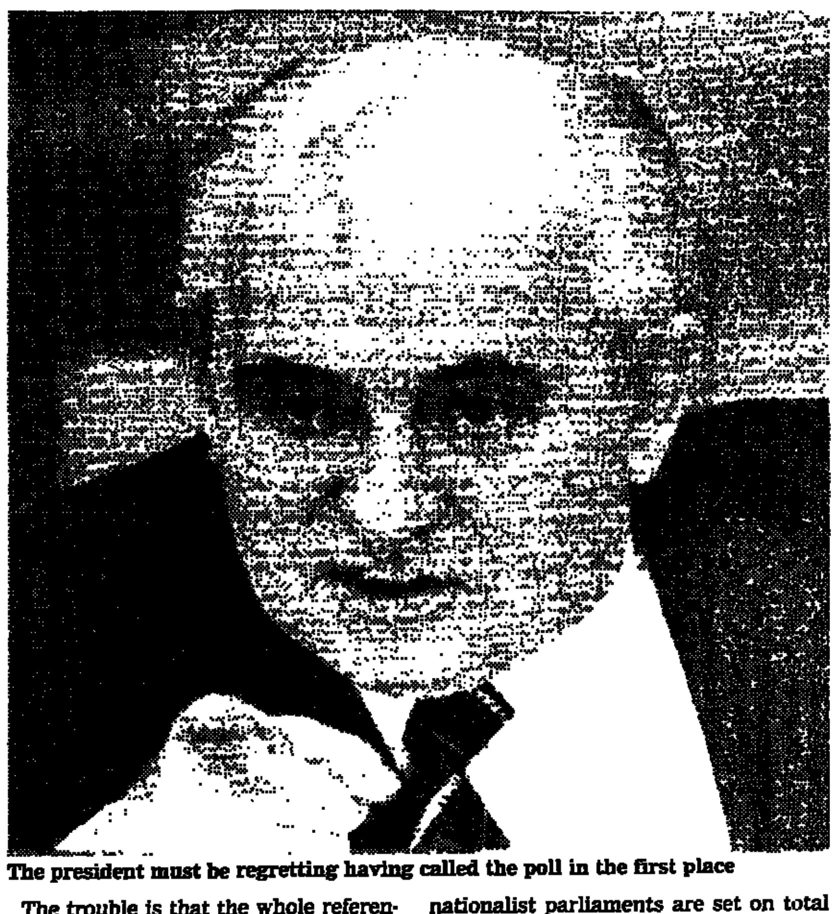
The expectation is still that the answer will be "Yes" to Mr Gorbachev's wordy question: "Do you consider necessary the preservation of the Union of Soviet Socialist Republics as a renewed federation of equal sovereign republics, in which the rights and freedoms of an individual of any nationality will be fully guaranteed?" But it is unlikely to be resounding.

There may well be widespread abstentions, above all in the rebellious republics where the question is most relevant. It seems unlikely that the referendum will even be legally valid – with at least 50 per cent of registered voters turning out – in any of the Baltic republics, or in Armenia, Georgia and Moldavia.

Worse for Mr Gorbachev is the confusion now rife in his own political backyard: in the Slavic republics of Russia, Ukraine and Belorussia, and in the traditionally conservative republics of central Asia.

The very fact of holding a referendum has stirred a new bout of anti-Gorbachev and anti-Communist party demonstrations, to compound the present acute political tension, ethnic rivalry and economic depression gripping the country.

As for the question, it has left many voters more confused. It is not that they are being asked simply if they want to preserve a unitary state. That state is defined as Soviet and Socialist. And then they are immediately told it is going to be renewed in an unspecified way. It is more like three questions than one.


The president must be regretting having called the poll in the first place

The trouble is that the whole referendum was really a short-term political manoeuvre, typical of the Soviet leader, albeit over a crucial long-term issue. It was on December 17, at the Congress of People's Deputies, that he suddenly produced the idea of not one, but two referendums: this would be the first, on the very idea of preserving a unitary state. The second would be on the fundamental issue of whether to allow private ownership of land.

In the first place, Mr Gorbachev was seeking to call the bluff of all those republics, including Russia itself, which were playing hard to get in signing a new Union Treaty to keep the nation together.

Second, he specifically wanted to call the bluff of the Baltic republics, whose nationalist parliaments are set on total secession. They had been refusing to hold a referendum on secession, on the grounds that they were never legally part of the Soviet Union in the first place: they were forcibly occupied by the Red Army in 1940.

Third, he wanted to persuade the Congress of Deputies to grant him sweeping new powers as president to re-impose order on the country. Given the accusations of his own growing powers of dictatorship, he thought it wise to give himself simultaneously something that looked like a popular mandate. In the end, he has been landed with a question which makes his whole task more difficult.

It was the Communist party itself, through the Supreme Soviet, which insisted that the words "Soviet" and "Socialist" should be included in the definition of the union. Mr Gorbachev himself simply wanted it to be called a "union of sovereign republics".

This week Mr Grigory Revenko, his closest adviser on the Union Treaty, tried to argue that the referendum was not about "names", but about preserving the union *per se*. He suggested that the extra words were irrelevant – not least because they are no longer included in the draft Union Treaty, and several republics no longer call themselves either Soviet or Socialist. And anyway, the ballot papers are printed.

Nevertheless, the fact of the referendum, and the sloppy wording of the question, has allowed Mr Gorbachev's opponents, led by Mr Boris Yeltsin, to exploit the whole event as a vote of confidence in the Soviet leader and his government. They argue that a "No" vote is a vote against Mr Gorbachev's idea of a union, not against the union.

Yet the opposition is split. Some want an outright "No" vote. Many others argue for a boycott. Others say that while the whole exercise is an expensive (Rbs100m-110m, says Mr Revenko) waste of time, you cannot actually call for the disintegration of the union.

Current polls still predict a 60 per cent or more "Yes" vote for the union. That is still scarcely resounding, especially if the turnout is low. And the mood is highly volatile.

Heavy-handed official propaganda has re-appeared on the streets, while state television is ramming the Gorbachev line down everyone's throat.

The latest purely Russian poll, carried out by Mr Yeltsin's parliament, suggests that only 50 per cent will vote "Yes", some 32 per cent of Russians will vote against the preservation of their union, and the rest will stay away.

Against that, there is always the probability of some solid ballot-rigging, especially in central Asia, where 90 per cent-plus polls for Communist party leaders are still commonplace.

So the Central Asians will vote to keep it, the Russians will prevaricate, and the assorted Balts and Georgians will not vote at all. Mr Gorbachev should get what he needs, but probably in a way he could have done without. He must be regretting having had the idea in the first place.

Rebel republics see poll as tactic to delay independence

By Leyla Boulton in Moscow

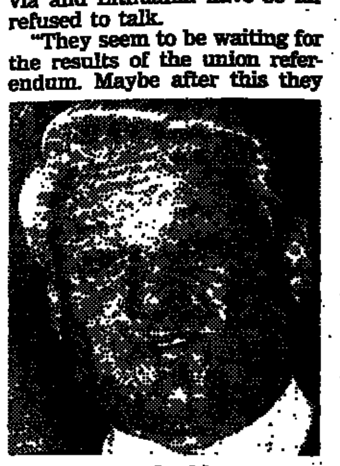
SIX republics intent on leaving the Soviet Union are refusing to hold President Mikhail Gorbachev's referendum on the future of the union.

But the Communist party and the army in the three Baltic republics, Georgia, Armenia and Moldavia, are organising makeshift polling stations for those who support membership of a "renewed union" of sovereign, socialist republics.

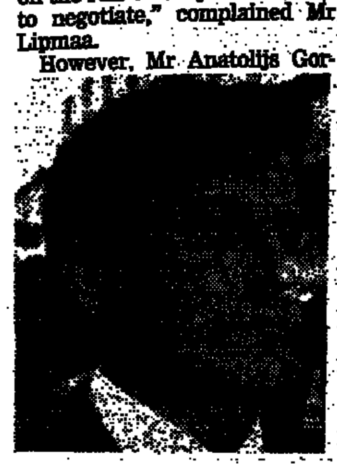
Such an exercise is likely to be little more than a farce in Lithuania, Latvia, and Estonia, where republican polls over the past month have shown overwhelming support for the restoration of the Baltics' pre-war independence. But optimists in the three Baltic republics are hoping that Moscow may get down to serious negotiating once the all-union referendum is out of the way.

Negotiating teams set up by President Gorbachev to talk to the Baltic republics after the abortive coup attempts in Latvia and Lithuania have so far refused to talk.

"They seem to be waiting for the results of the union referendum. Maybe after this they will come down on one side or the other," said Mr Audris Azubalis, the chief spokesman for the Lithuanian parliament. Mr Endel Lipmaa, the Estonian minister responsible for talks with Moscow, said the chief of the Soviet team chosen to deal with Estonia "was definitely on the run". "They do not want to negotiate," complained Mr. Lipmaa.


Yeltsin: a standard bearer

However, Mr Anatolijs Gorbunovs, the smooth Latvian president, says he has not lost hope that the Soviet leader would finally recognise that the only solution to the Baltic problem was independence.


Latvia's President Gorbunovs

The picture is messier in Georgia and Moldavia, where blood has already been shed in pro-Moscow enclaves frightened by republican nationalism. An overwhelming vote in favour of the union by pro-Moscow Russian and Gagauz minorities in Moldavia and Abhaz and South Ossetians in Georgia will be used as an additional argument for a tough crackdown against the pro-independence movements in the two republics.

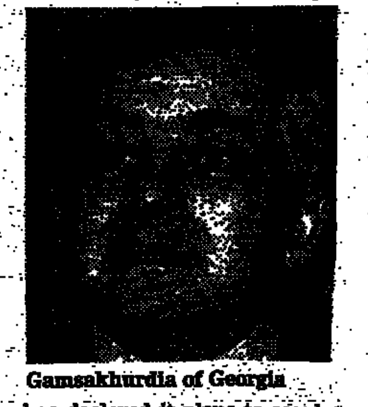
Mr Zviad Gamsakhurdia, the fiercely nationalistic president of Georgia, earlier this year tried and failed earlier to wipe out the autonomy of South Ossetia.

The region is now under the control of anti-Georgian guerrillas and Soviet troops, who will help organise a mini-referendum in the area. Local authorities in the equally pro-Soviet autonomous republic of Abhazia (where only 17 per cent of inhabitants are ethnic Abhaz) will be holding a referendum in defiance of an appeal by Mr Gamsakhurdia not to co-operate with Georgia's "historic enemies".

Georgia is planning its own referendum on March 31, when voters will be asked to show their support for the republic's 1918 declaration of independence, which paved the way for a short-lived Georgian state. That was crushed by the Bolsheviks three years later.

Work collectives in Moldavia's second city of Tiraspol, which is dominated by Russian-speakers will be holding their own referendum, as will local authorities in the Christian Turkish Gagauz region. The Red Army has said it will be opening 50 military polling stations right across Moldavia for anybody who wishes to take part in the all-union referendum.

Armenia, which like Georgia has declared it plans to secede after a transition period will be boycotting the referendum. But it seems that Armenia constitutes the least of Moscow's problems, partly because the republic's shrewd nationalist president, Mr Levon Ter-Petrosian, is going out of his way to avoid a showdown with the Kremlin.


Gamsakhurdia of Georgia

Voters will face loaded questions

By Quentin Peel in Moscow

THE principal question in the Soviet referendum this Sunday is already an embarrassment to the Soviet authorities.

However, many of the country's voters will have to answer second, or even third questions put by their republican and local authorities, each one loaded with political implications in the current struggle for power between the centre and the republics, and between the Communist party and its opponents.

The only republic in the country which looks like having a reasonably straight-forward question is Kazakhstan, where President Nursultan Nazarbayev has simply ignored Moscow's orders.

He has substituted his own local version.

The variations are all being put in open defiance of the Supreme Soviet in Moscow, which ruled that its own question should be the only one on the ballot paper.

That asks voters to say if they "consider necessary the preservation of the Union of Soviet Socialist Republics as a renewed federation of equal sovereign republics".

Mr Nazarbayev has dropped the words "Soviet" and "Socialist", simply asking if his electors want to preserve a "union of sovereign states" – thereby giving himself a much better chance of getting a positive response.

Back in Russia, voters are to be asked another loaded question: "Do you consider it necessary to introduce the post of president of the Russian federation, elected by popular vote?"

And in Moscow, they have a third: "Do you consider it necessary to carry out direct elections of the mayor of Moscow by the residents of the city?"

Direct elections for a president of the Russian republic would provide a hugely powerful platform for Mr Boris Yeltsin to challenge Mr Gorbachev, and achieve real popular independence.

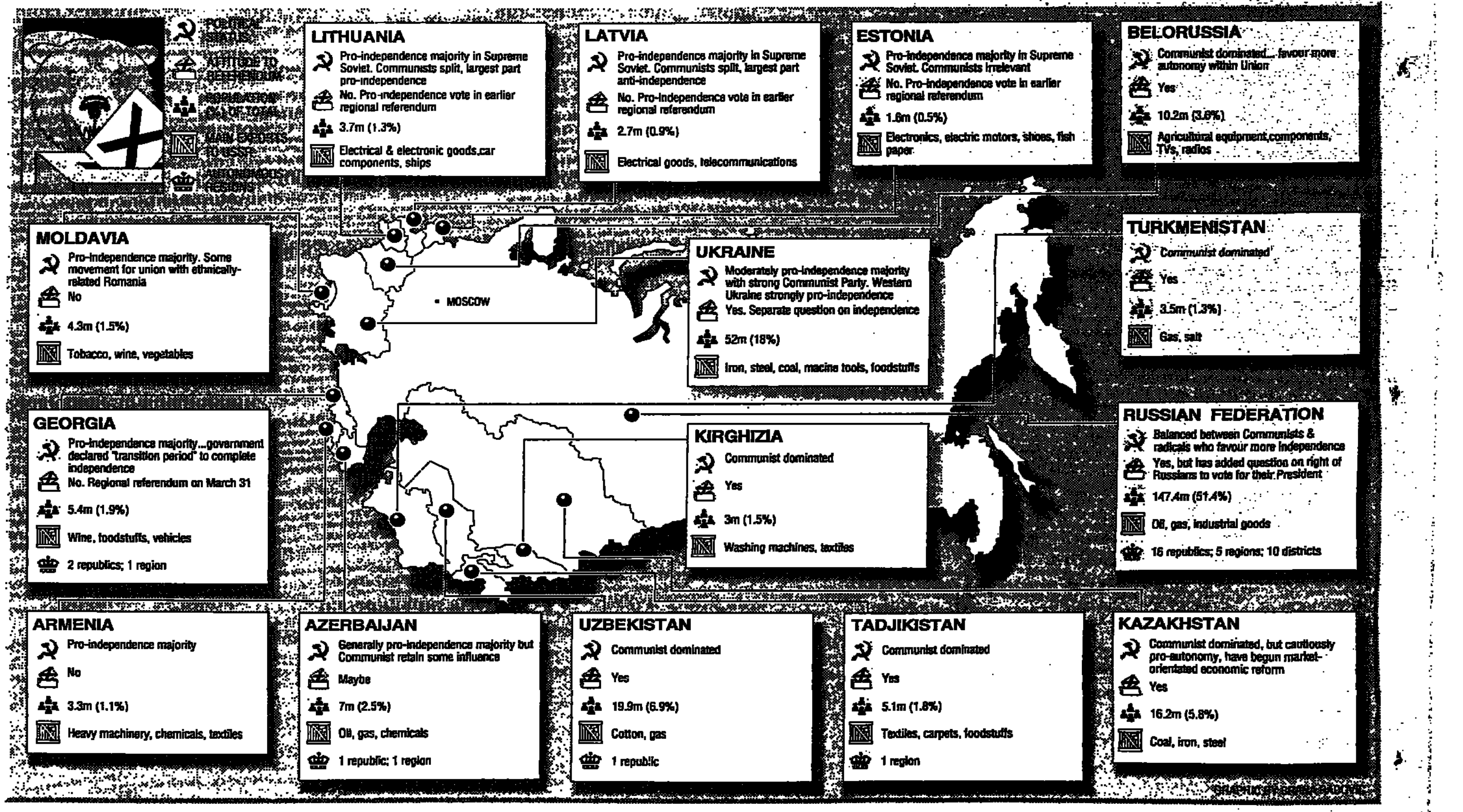
All the indications are that Russians will vote for such a post to be created.

However, key regions inside Russia, still dominated by the conservative Communist apparatus, are refusing to put the question to the voters: they include the autonomous republics of Tataria and North Ossetia, and the regions of Smolensk and Ryazan.

Second questions are also being asked in Ukraine and Uzbekistan.

In each case, the voters must say if they want their republics to remain part of the Union.

One definite outcome will be voter confusion on Sunday.



Moscow's CFE stance concerns Nato

By John Lloyd

WESTERN governments are increasingly concerned by what they see as a continued flouting by the Soviet government of the letter and spirit of the Conventional Forces in Europe (CFE) Treaty, signed last November.

Many believe it points to a dangerous dependence on the military by Mr Mikhail Gorbachev, the Soviet president, and that it could deeply sour relations and stop the main areas of progress between the West and the Soviet Union.

The concerns were voiced by Mr John Major, the British prime minister, during his one-day visit to Moscow last week – but he received no solid reassurance. They will surface again in talks Mr James Baker, the US secretary of state, will hold in Moscow today, and in a visit to Moscow next week by Mr Douglas Hurd, the British foreign secretary.

Non-observance of the CFE terms by the Soviet Union could mean, officials say, that progress in the Strategic Arms Reduction Talks (Start) on further cuts in nuclear arsenals will be frozen. A Start agreement was expected to be signed at a US-Soviet summit in Moscow – postponed from February, ostensibly because of the Gulf war – and progress towards a Start II initiated. At the core of the dispute are two Soviet evasions.

One is the removal of 10,000 tanks, about half the total which should have been destroyed under the CFE, to depots east of the Ural mountains.

The other, regarded as the more serious, is reclassifying two divisons of army troops as naval forces – and thus exempt from the terms of the CFE treaty. In his talks with Mr Gorbachev and General Dimitri Yazov, the Soviet defence minister, Mr Major gained the impression that the Soviet leader could not enforce the agreed cuts and that Gen Yazov would not agree to them.

Gen Yazov's line appears to be that the agreement was unfair to the Soviet military, and that it could not be expected to implement them. This covert rebellion against political decisions was a major reason for the resignation last December of Mr Eduard Shevardnadze, the Soviet foreign minister - whom Mr Major also met last week in Moscow.

Western legislatures are due to ratify the CFE and the Start treaties in the coming months, but this will take place only if the non-compliance points can be ironed out. Nor will President Bush go to Moscow until the issue is cleared up.

UK officials believe that if the stand-off continues, further progress on arms reductions, and on transforming the Nato into a largely political alliance, will cease.

No return to Cold War relations is envisaged, but senior officials now talk of a prolonged period of coolness, replacing an era in which agreement and co-operation came to be seen to be the norm.

At the same time, however, further cuts in both conventional and nuclear forces are seen as inevitable in the long run, because of budget constraints on both sides. In the short term, however, the quarrel over CFE could be seriously destabilising.

Miners in two key coalfields pressed on with strikes for more money and the resignation of President Gorbachev yesterday, draining sparse reserves and threatening local steel and chemical plants, Reuter reports from Moscow.

Soviet television showed Muscovites taking food parcels to a central collecting point for shipment to Siberian Kuzbass and Ukrainian Donbass coalfield workers. "We may go hungry ourselves, but we'll help them," one pensioner said.

Union leaders kept strikes at a constant level, switching shutdowns from mine to mine in a "rolling wave" action, challenging Mr Gorbachev's authority just three days before the union referendum.

But the chemical and steel industries feared the slowdown in supplies now entering its third week could have serious long-term effects for local plants directly dependent on the fields. The Soviet economy is already suffering a chronic shortage of steel and chemical products.

Tass reported on Wednesday that five steel mills were shutting down furnaces.

■ The Soviet Union must persist with market-oriented economic reforms to receive assistance from the new European Bank for Reconstruction and Development (EBRD), Mr Jacques Attali, the bank's president, said yesterday, Reuter adds from Moscow. "It is in everyone's interests that the Soviet Union joins the world economy harmoniously," he said.

Slovaks in Nazi era remembrance

By Leslie Colitt in Berlin

SLOVAK nationalists yesterday stepped up their demands for greater sovereignty from Prague, by holding demonstrations on the anniversary of the establishment in 1939 of a breakaway Slovak state under Nazi control.

Nearly 7,000 demonstrators gathered in Bratislava, the capital of Slovakia, heard a recording of Mr Josef Tiso, Slovakia's wartime president, and chanted slogans for an independent Slovakia at a rally organised by the Slovak National Party (SNP) which was trounced in elections last November. A smaller counter-demonstration also took place.

Mr Vaclav Havel, the Czechoslovak president, visited Bratislava yesterday where he prepared a TV address to the nation on the subject of the nation's unity.

Mr Havel's visit was "because the unity of Czechoslovakia is in danger", said Mr Alexej Michalec, a spokesman for Public Against Violence, the main Slovak movement which is allied to the powerful Czech Civic Forum founded by Mr Havel.

Belgrade opposition issues an ultimatum

By Laura Silber and agencies in Belgrade

OPPOSITION members in Yugoslavia said yesterday they would take their protests back onto the streets unless the Communist government of the Yugoslav republic of Serbia resigned.

Mr Vuk Draskovic, the nationalist leader of Serbia's biggest opposition party, said the opposition would officially demand the entire government's resignation in the republic's parliament. He was speaking hours after students ended a five-day protest that won concessions including his release from jail.

"If that is not achieved we will go on the streets again, peacefully," he said. "We will put all kinds of pressure on Serbian rulers to achieve full freedom and democracy."

The protesters have forced several concessions from Serbia's Socialist (formerly Communist) party, although there has been concern in the past few days that the federal army might take action in support of the communists.

Mr Veljko Kadijevic, the defence minister, tried to dampen fears about a military coup. "I can guarantee that . . . an army coup has not been planned. Yesterday, the country's collective presidency and senior military leaders remained divided about the army's role in the Yugoslavia's political future.

Despite the lessening of tension, there remain doubts about whether the army will allow the emergence of a non-Communist opposition in Serbia, which has close links with the army.

The resignations yesterday of four top media functionaries – among the protesters demands – in Novi Sad, the capital of Vojvodina, Serbia's northern province, will further erode support for Mr Slobodan Milosevic, the president of Serbia. The media, under Mr Milosevic's tight control, has been the key to mass support for Serbia's Socialists.

Yesterday he tried to regain the political initiative.

A young people's rally, to be held on Saturday, seemed aimed at proving the Socialists could still mobilise thousands of supporters. The revived Communist party, which was founded last Autumn by about 80 retired generals and hard-line Communists, claims to have at least 600,000 members.

Maverick sets up party in Poland

MR Stanislaw Tyminski, controversial runner-up to Mr Lech Walesa in Poland's presidential election last year, said yesterday he had formed a political party to fight the next parliamentary elections, Reuter reports from Warsaw.

Mr Tyminski said Party X was registered by a Warsaw court on Wednesday and would "definitely" have time to build a winning political force before the elections, expected this autumn.

The 43-year-old emigré businessman, totally unknown in Poland until last year, pulled off a stunning upset in the presidential election to capture second place behind Walesa with nearly 26 per cent of the vote.

Mr Tyminski, a self-made millionaire who made his fortune in Canada and Peru, caught voters' imagination by promising to free their country from economic slavery and build a "democracy of money" where everyone would have the chance to get rich.

Previously a resident of Canada and Peru, he stayed in Poland after the election saying he owed it to his millions of supporters to form a political movement.

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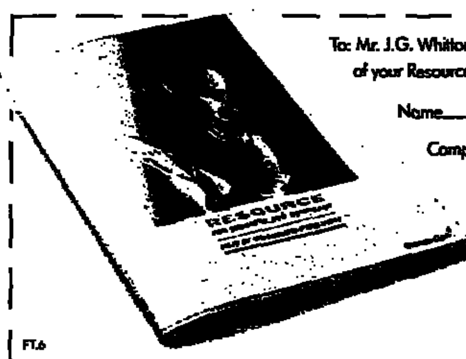

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EUROPE IN BRIEF

Brussels calls for ship aid review

The European Commission asked the Belgian government to review the terms of the subsidised financing of nine ships, which exceeded the amounts of state aid to shipbuilding allowed under European Community rules, David Gardner writes from Brussels.

Seven of the vessels received soft loans equivalent to 85 per cent of the construction costs. This amounts to a 35 per cent subsidy, the Commission said. The maximum allowed in 1989, the year the contract was signed, was 26 per cent. Two smaller ships, in receipt of concessionary loans equivalent to 23.5 per cent of the production cost, exceeded the 16 per cent aid ceiling set for vessels of that class.

The outcome of this case depends in part on a decision expected soon from the European Court of Justice. The Belgian government has appealed against a previous Commission decision which judged state aid to three other shipbuilding contracts to exceed the ceiling.

Tougher rape penalties urged

European governments should toughen penalties against men who rape or attack women, Belgium's minister responsible for social affairs said.

They should also train police and courts to deal more sympathetically with victims, Mrs Miet Smet told the opening of a pan-European ministerial conference. A study prepared for the conference, organised said 64 per cent of Greek women interviewed said they had been raped.

EC urged to aid Albania

The European Parliament urged the European Community to give Albania emergency aid to stem a flood of refugees leaving for Italy.

The EC's executive Commission is considering a request for aid and diplomatic ties with the Community from Albania, the last bastion of communism in Central Europe. It has already promised Ecu1m ($1.3m) of emergency aid for Albanian refugees in Italy and Ecu500,000 for those in Greece.

German police criticised

The European Parliament criticised German border police for imposing medical examinations on German women suspected of having abortions in the Netherlands.

Several women have complained they were subjected to compulsory medical examinations by border police after returning from the Netherlands. The German interior ministry has said it was aware of only two cases in recent years.

Abortion is illegal in former West Germany except where medical dispensation is obtained.

Swedish party on fun ticket

A new Swedish political party, dedicated to making life more fun by lowering taxes and firing parking wardens, is winning over voters at the expense of the ruling Social Democrats, an opinion poll showed.

The survey in the business daily Dagens Industri put support for the New Democracy Party at 11.8 per cent, making it the country's third most popular.

Brussels drops plan for EC-wide food agency

By David Buchan in Brussels

THE European Commission has abandoned plans for a Europe-wide food safety agency after being swamped by applications from companies seeking approval for food additives and packaging.

Instead Brussels is turning to national agencies. It will set up a central secretariat in Brussels, which will farm out to various national food safety institutes the job of checking the laboratory tests submitted by manufacturers.

The move follows the passage of new food legislation, which either gives the EC Scientific Committee on Food (SCF) the sole right to approve food additives for sale in the Community, or only limits national authorisation to two years, after which EC approval is needed.

As a result, manufacturers are no longer bothering to go first to national food safety authorities for tests which then have to be re-done by the EC, but are going straight to Brussels.

Some 120 applications have been filed in food packaging alone in the first two months of this year, far outstripping the capacity of the few EC food safety specialists.

The EC dropped the goal of harmonising food ingredients and creating, say, Euro-sausages or Euro-chocolate, in favour of recognising the diverse tastes of EC citizens, provided all food met certain basic safety standards. These standards are contained in EC rules on additives, packaging, flavouring and contaminants.

● The Commission has withdrawn proposals on telecommunications, environment and biotechnology because they have been too radically changed by the Council of Ministers. The move will delay the planning of nearly a quarter of the EC's 1990-94 high-tech research programme worth Ecu5.7bn ($7.41bn).

German chancellor Helmut Kohl posed with Israel's foreign minister David Levy in front of his collection of minerals yesterday. Bonn told Mr Levy that Germany favoured Israel's preference for direct talks with its Arab neighbours rather than an international Middle East conference

Bonn eases telephone link rules

By David Goodhart in Bonn

THE German Post Ministry has eased the conditions for establishing satellite telephone links between west and east Germany to help beat the telecommunications bottleneck between the two countries.

The ministry announced last August that it was suspending conditionally the state monopoly on voice traffic, but since then only one company, Preussen Elektra, of west Germany, has successfully applied for a satellite voice traffic licence.

More than a dozen companies have received licences for non-voice satellite links to east Germany but the voice link has proved uneconomic in view of the ministry's three year time limit.

That limit has now been extended to six years. In addition, the ministry has waived the condition that Telekom, the state telephone company, must be given two months to see if it can offer a voice link.

One company, Teleport Europe, announced yesterday at the Cebit computer fair in Hanover that it intended to take advantage of the more relaxed regulations for satellite voice links. Teleport Europe is a joint venture of MAN, Hoesch, Matra, Preussag and Preussen Elektra.

Also at Cebit, Mr Christian Schwarz-Schilling, the post minister, predicted that by the end of next year "the telephone problem will no longer be an issue in east Germany".

Greece presses on with cement sale despite EC hitch

By Kerin Hope in Athens

GREECE is pushing ahead with the sale of Heracles General Cement, a state-controlled producer, despite legal obstacles arising from the way it was nationalised by the former socialist administration.

The Industrial Reconstruction Organisation, which is trying to sell more than 20 debt-burdened Greek companies nationalised in the early 1980s, has asked a dozen foreign banks and investment firms to submit proposals for handling the sale. IRO has appointed N.M. Rothschild, the British merchant bank, as its adviser on privatisation.

Mr Yiannis Piperoglou, secretary of the government's privatisation committee, said yesterday IRO would "select a financial adviser for the Heracles sale by the end of the month." Several big European cement producers had shown interest in acquiring it.

With market capitalisation of about Dr176bn (£560m), Heracles is much the largest IRO company and one of the few operating at a profit. It claims to be Europe's biggest single cement exporter, earning Dr3.46bn on turnover of Dr39.14bn in 1989.

The conservative government is pressing IRO to dispose of companies quickly in order to cover this year's budget provision of Dr200bn in privatisation revenues.

Heracles was nationalised in 1983 when the Socialist government ruled that Dr27bn in debts owed to the state-owned National Bank should be capitalised, giving the bank control of 70 per cent of the company's shares

But this method of writing off debt violated European Community rules on fair competition. The European Commission has told the government to reverse the capitalisation or repay the debt.

Separately, the European Court is expected to uphold an opinion issued by its Advocate General in January, holding that a similar share increase imposed on another IRO company, the textile manufacturer Velka, was invalid because shareholders were not consulted.

An Athens court hearing on the Velka case was adjourned last week until after the European Court issues its ruling, indicating that a similar decision will be handed down, according to Greek legal analysts.

A judgment in favour of Velka's owners would not affect the sale of Heracles.

Craxi challenges Andreotti with call for new government

By John Wyles in Rome

THE distant thunder of an Italian political crisis yesterday threatened the 20 month-old coalition led by Mr Giulio Andreotti when Mr Bettino Craxi, the Socialist Party leader, called for the formation of a new government if early elections are to be avoided.

Mr Craxi's speech to his party's national assembly has been eagerly awaited in Rome for indications about whether he would use his pivotal position between left and right in the Italian parliament to force the demise of Mr Andreotti's coalition.

His long address yesterday indicated that he did not consider elections before June 1992 – when the poll is due constitutionally – as "something inevitable". But his message to the veteran Christian Democrat prime minister was that a new government should set a specific timetable on several policy issues.

Mr Craxi wants fresh measures on five priorities he recently outlined: further stabilisation of public finances, institutional reforms, the fight against organised crime, preparations for the European single market and the development of Italy's international role. The forthcoming negotiations on a renewal of the coalition's political programme leaves Mr Craxi the option of forcing a breakdown and early elections. The crucial unknown is to what extent he will try to insist on his own programme for institutional reform, based on a consultative referendum on whether to bring in a more presidential system of government. This is opposed by all other coalition parties as well as the main opposition party, the Party of the Democratic Left. But an underlying theme of the negotiations will be who succeeds Mr Francesco Cossiga as president in next summer and who will succeed Mr Andreotti after the next elections. The prime minister wants to survive another year to be in a position to run for the presidency and Mr Craxi wants to be the next prime minister.

Asian tigers discover Japan is still king of the jungle

Taiwanese and Korean exporters are hooked on Japanese imports, write **John Ridding** and **Peter Wickenden**

TAIWAN and South Korea, traditionally the export dynamos of East Asia, have usually had to worry about surpluses with trading partners, not deficits.

Their spectacular export performances in the 1980s created, as a proportion of gross national product, the world's largest current account surpluses and fuelled trade tensions with the US.

But while these imbalances are moving towards equilibrium, their deficits with Japan, the flipside of their export drives, are climbing.

Figures released this month show that last year South Korea's trade deficit with its neighbour across the Korea Strait, rose by 48.7 per cent to $5.94bn – more than double its $2.42bn surplus with the US. Taiwan's deficit with Japan was $7.6bn – a 9.8 per cent increase over 1989. With the imbalances widening, concerns about dependence on Japanese imports are being voiced in Seoul and Taipei.

Last summer, at a low point in Taiwanese-Japanese relations, Mr Chiang Bing Kun, Taiwan's vice economics minister, accused Tokyo of "grovelling" to Peking by refusing to address trade issues in direct talks with the nationalist government in Taipei.

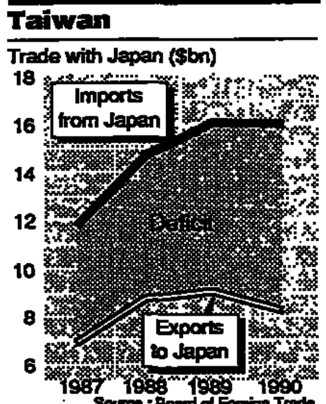
Officials in Seoul have been less strident, placing the blame with their exporters as much as with Japan. None the less, the yawning bilateral imbalance was near the top of the agenda when Mr Toshiki Kaifu, Japan's prime minister, visited Seoul this year.

Korean and Taiwanese dependence on Japanese imports goes back to their experience of Japanese colonialism in the first half of the century. The young technicians who were trained to use Japanese machinery, and who generally speak Japanese, are now the middle aged businessmen running Taiwan's biggest manufacturing groups.

Post-war investment flows have further intertwined the two economies. According to Taiwan's Investment Commission, Japan last year overtook the US to become the biggest foreign investor in Taiwan.

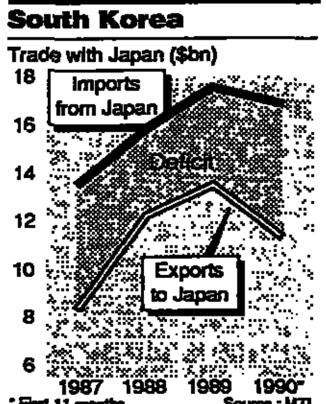
In South Korea, too, there has been large-scale post-war investment, such as Mitsubishi's 15 per cent stake in Hyundai, Korea's largest car manufacturer.

Taiwan



Source : Board of Foreign Trade

South Korea



* First 11 months Source : MTI

For both Korea and Taiwan, Japan provided an important ingredient in the remarkable success of their economies during the 1970s and 1980s. But the result was dependence on Japanese imports. Taiwan's board of foreign trade estimates that Japan supplies about 80 per cent of Taiwan's industrial parts and capital equipment. In Korea, too, Japan is the largest supplier of capital equipment and machinery.

In the first 11 months of last year, Korean imports of Japanese machinery and transport equipment rose by about one-third to $5.58bn. Imports of electronic equipment rose by 29 per cent to $4.89bn.

This surge in imports of capital equipment, mirrored in Taiwan, reflects a restructuring in the Korean economy as industry seeks to overcome higher labour costs and competition from cheaper regional producers by upgrading productivity, increasing quality and raising value added.

Together with the strong increases in domestic consumption in Korea and until last year in Taiwan it explains the unusual coincidence of single digit export growth and double digit import growth.

As the restructuring of their industries proceeds, government in both Korea and Taiwan are pressing domestic businesses to diversify their sources of supply. But so far they have had little success.

"Businesses continue to buy Japanese equipment because of the quality, cost and existing business relationships," argues Mr Lee Duk Hoon, counsellor to Korea's economic planning minister.

Given the continued importance of Japanese equipment in the restructuring of their industries, officials in both countries see the solution to their trade imbalances in expanding exports to Japan.

But here, too, there are difficulties. Last year, Korean exports to Japan fell by about 6 per cent, while Taiwanese shipments fell by 7.9 per cent.

"We have been losing the battle in price competitiveness," argues Mr Lee, who points to the depreciation of the yen at the beginning of 1990 and the impact of higher Korean production costs.

Prospects for this year are considered brighter following the strengthening of the yen and relatively modest wage rises last year. But, again, there are structural problems hindering exports to Japan.

"The three economies are quite similar in term of industrial structure and hence are not complementary," argues Korea's ministry of trade and industry. "Moreover, imports of Japanese products from their overseas operations in south-east Asia are cutting us out of the bottom end of the market where we used to have an advantage."

Without a significant improvement in exports to Japan, the Korean and Taiwanese deficits are likely to get worse before they get better.

HK road scheme secures finance

By John Elliott in Hong Kong

THE BANK of China and the Hongkong and Shanghai Banking Corporation have joined with Dai-Ichi Kangyo Bank of Japan as lead managers for a $800m syndicated project loan facility to finance a 123 kilometre six-lane toll road from the border of Hong Kong through the southern Chinese province of Guangdong to the city of Guangzhou (Canton).

They are each putting up $100m, with the rest coming from another 26 Asian and European banks. The arrangers are the merchant banking arms of the Bank of China and of the Hongkong Bank – China Development Finance (HK) and Wardley Capital.

The scheme was first proposed 12 years ago by Mr Gordon Wu, a Hong Kong-based construction entrepreneur whose Hopewell Holdings has other infrastructure projects in China, the Philippines and Bangkok. Hopewell will build and operate the road for the Guangdong provincial government, which will take 60 per cent of the profits.

Yesterday Mr Wu said that he "might have had second thoughts" 12 years ago if he had known the difficulties he would face. The feasibility of the road has been constantly questioned and land acquisition has delayed construction.

The financial backers are confident of profits because the highway will run through China's most developed and prosperous industrial area up the east side of the Pearl River estuary, which includes the special economic zone of Shenzhen, where a new airport opens within a year, and the industrial city of Dongguan.

Foundation and substructure works are already under way and the road is scheduled to be completed in four years – which Mr Wu said he intends to cut to just over two.

Mr Wu plans a further 180km section in 1993 running from Guangzhou down the west side of the Pearl Delta to the special economic zone of Zhuhai and to Macao.

British engineers win more construction contracts

By Andrew Taylor, Construction Correspondent

BRITISH consulting engineers last year won contracts on international construction projects worth £16bn, a rise of 10 per cent on 1989, the British Association of Consulting Engineers (ACE) said yesterday.

Construction companies from Europe and the US have recently seen an increase in overseas orders after a slump in the mid-1980s following a fall in oil prices and the emergence of a serious debt crisis among many developing countries.

The rise in new work was greatest in the Far East, and seems likely to continue this year. There was also a sharp recovery in the Middle East.

Mr Tom Douglas, the association's chairman, said the rebuilding of Kuwait would provide British companies with opportunities for work, although latest reports suggested that structural damage had been less than first feared.

Last week a joint venture between Cementation the construction arm of Trafalgar House, the UK engineering, property, shipping and hotels group and Balfour, part of BICC engineering group, said it had won a £400m contract to build a hydro-electric power station in Malaysia.

It said consulting engineers had contributed £480m to Britain's invisible earnings last year compared with £425m in 1989.

UK NEWS

Ashley Ashwood

Jailed for life in 1975 the Birmingham Six walk free from the Old Bailey in London

Ulster's political leaders challenged to accept talks

By Ralph Atkins in London and Kieran Cooke in Dublin

NORTHERN Ireland's political leaders are being challenged to accept or reject by Easter plans for talks on the province's political future in a calculated gamble by the British government.

The Irish republic last night agreed to proposals set out by *Mr Peter Brooke, Northern* Ireland secretary, for talks covering alternatives to the 1985 Anglo-Irish agreement and devolved government in the province.

Mr Brooke told MPs: "The moment for decision has come". He sent copies of his proposals, which were approved by the full Cabinet yesterday, to Unionist leaders and the nationalist Social Democrat and Labour Party (SDLP). They are not negotiateable, he said. Dublin's copy was personally recommended to the Irish Republic by Mr John Major, prime minister.

The minister's challenge comes after 14 months of "talks about talks" that have floundered *in recent months* on points of detail. His carefully constructed comments will *force the Unionists and SDLP* to decide soon whether they are prepared to bridge the *remaining gaps – or be the* party that sinks the initiative.

Mr Brooke said he would *publish the document once he* had received the parties' responses – whether they accepted it or not. Leaders of the parties involved would then be accountable to their electorate.

The Irish government's swift reaction reflected a keenness to participate in talks. Mr *Charles Haughey, the Irish* prime minister, expressed "profound hope that the talks will *now get under way and proceed* to a successful conclusion." The SDLP is highly likely to follow Dublin's lead.

Initial Unionist reaction was encouraging but non-committal. Mr Peter Robinson, deputy leader of the Democratic Unionist Party, said the document would be "examined very carefully and very positively".

Mr John Taylor, Ulster Unionist MP for Strangford, welcomed the decision, saying his party had been "keen on talks within Northern Ireland and eventually with Dublin". But significantly Mr James Molyneaux, UUP leader, was *unavailable for comment.*

Mr Brooke told MPs he believed the document "pro*vides a sound basis" for formal* political talks on three relationships: London/Dublin, *north and south Ireland, and* within Northern Ireland.

"Fourteen months of pains*taking collective effort about* important, but essentially preliminary, points lie behind us. Against that background, I do not believe that we can sensibly engage in further textual barter."

Mr Brooke's document envisages talks starting with him chairing discussions among local politicians about the government of Northern Ireland. These would then broaden to bring in the Irish government and cover possible replacements for the 1985 Agreement.

A stumbling block so far has been determining the point at which Dublin enters. Mr *Brooke's plan is thought to* build earlier proposals under which he would act as an *"independent arbiter" but it is* not clear to what extent he would consult Unionist parties.

*Unionist object to the Anglo-*Irish agreement because of the influence it gives Dublin in the province's *internal affairs.*

Another obstacle has been whether the Unionist parties *would, in the second phase of* talks, form part of a UK delegation led by Mr Brooke or nego*tiate independently.*

Mr Brooke, who acknowledged all sides have a veto, *said he would make a state*ment to the Commons before the Easter recess if his plan *was accepted.*

UK ECONOMY

Unemployed total hits 2m and more job losses feared

By Peter Marsh, Economics Staff

UNEMPLOYMENT in Britain rose by 85,600 last month to reach 2m for the first time since February 1989, according to government figures yesterday.

The higher-than-expected monthly rise was the biggest since late 1980, and the fifth largest on record. It pushed the *seasonally adjusted* jobless total to 1,977,200 and underlined concern that the recession *has yet to show signs* of bottoming out.

Headline, or unadjusted unemployment, now stands at 2,045,375, and looks set to reach around 2.75m by the end of the year.

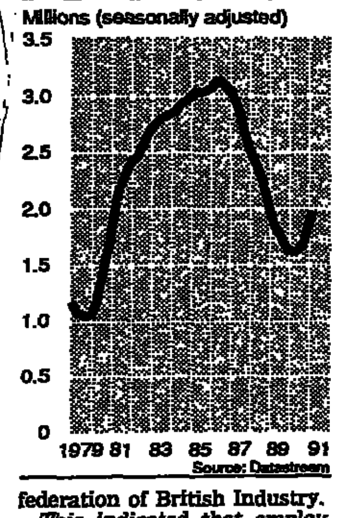
However, the gloom on the jobless front failed to prevent shares on the London stock market from surging to a new all-time closing high, triggered by hopes that the government would cut base rates from 13 per cent on or around budget day next Tuesday.

The FT-SE 100 index closed at 2,500.6, up 52.4 on the day and some 40 points above the previous closing high, recorded in January 1990. It was driven mainly by the assumption that economic growth *would pick* up around the summer and was helped by the strong performance of *European bourses* and on Wall Street.

With news of unemployment's 11th successive monthly rise, came a bleak survey of prospects for the distributive trades industry from the Financial Times and the Confederation of British Industry.

UK unemployment

Millions (seasonally adjusted)



Source: Datastream

This indicated that employment would fall further among retailers, wholesalers and in the motor *trades, in spite* of signs of a slight improvement in the retail sector.

The Treasury *said the Febru*ary unemployment figure was "unwelcome" while Mr Tony *Blair,* Labour's employment spokesman said it was "absolutely appalling" and demon*strated that* the government had lost control of the recession.

The government gained some comfort from figures indicating that the rate of rise in wage increases is slowing down.

A reduction in the annual *increase in average earnings,* from 9¼ per cent in December 1990 to 9¾ per cent in January, *was the first decline in this* number since October, and will help the government's battle to *control inflation.*

Mr Michael Howard, employment secretary, said the change was encouraging, although Britain had "a long way to go yet" on wage restraint.

Employment Department officials said the reduced figures for pay rises was due less to moderated wage settlements than to a reduction in overtime hours and a greater amount of short-time working, particularly in manufacturing.

Since unemployment began increasing in March 1990, 316,000 men and 54,600 women have lost their jobs.

The proportion of the workforce without a job is now 7.0 per cent, up from 6.7 per cent *in January and 6.5 per cent* in December.

● Britain's retailers may have *seen the worst of the recession,* but the latest distributive trades survey from the Financial Times and Confederation of British Industry points to continued deterioration of business conditions in the wholesale and motor trades.

The survey showed retailers expecting a modest year-on-year rise in sales volumes this month after selling slightly less in February than in the same month last year.

BRITAIN IN BRIEF

BSkyB to spend £30m on marketing

British Sky Broadcasting plans to spend up to £30m this year marketing its new combined five channel satellite television service.

Mr Gary Davey, deputy managing director of BSkyB, made the announcement as he outlined plans for the satellite company's new combined service.

From the middle of next month BSkyB, a company in which Pearson, publishers of the Financial Times, has a significant stake, will broadcast a common service on both the Astra satellite system and on the BSB *satellites.*

There will be two subscription channels, Sky One, the general entertainment channel, Sky News and Sky Sports.

Mr Davey said yesterday that since the merger of Sky and BSB in November the average viewing of the four Sky channels had increased from 7 hours a week to 10 hours.

Compared to the *ITV* audience, the Sky audience was markedly younger and *predominantly middle-market.*

BSkyB says that over 2.3m homes will be able to get its *unified service via home dish,* cable networks or communal aerials. Of the total, 1.3m homes have satellite dishes.

Water charges may double

UK householders have been warned they face a doubling of their water charges by the turn of the century.

The increases were vital to pay for a massive £28bn clean-up to sewage disposal works and improvements to drinking water quality, said Mr Michael Carney, secretary of the Water Services Association.

An average domestic water charge of £156 this year will almost certainly be more than £300 by the year 2000.

Heath urges tax caution

A greater role for local government was urged yesterday by Mr Edward Heath, the former prime minister, as he warned ministers not to be rushed into deciding what should replace the poll tax.

In a speech to his Old Bexley and Sidcup constituency association, Mr Heath, a consistent critic of Mrs Thatcher's premiership, praised Mr John Major, but warned that government had become too centralised since 1979.

"Far from reducing local authorities to little more than street cleaning supervisors, we should be attempting to build up a more professional form of local government, not only to ease the burden on central government but also to increase the democratic accountability in this country," he said.

He added that Mr Michael Heseltine should make it clear soon the poll tax was dead, without being pressurised into *a quick announcement* about any possible replacements.

● The Liberal Democrats *gather for their local* government conference today, buoyed up by the NOP poll in today's Independent newspaper showing them on 18 per cent, and saying they are ready for a general election as early as 2 May.

Mr Des Wilson, the campaign director, said that extensive pre-planning had taken place in order to avoid the mistakes of the 1987 contest and prepare for an integrated campaign.

Tecs heads' boycott threat

Senior representatives of the new employer-led Training and Enterprise Councils will be urged to boycott a meeting with Mr Michael Howard, the Employment Secretary, on Monday if agreement is not reached on a mutually agreed agenda for discussion.

Mr David Dickinson, a director of Stanhope Properties and a member of G10, the group of 10 Tec chairmen who regularly meet with Mr Howard, has threatened to urge the boycott if the Department of Employment does not re-instate discussion of a possible temporary work option onto the agenda.

The Department of Employment said only that: "G10 is free to raise any issues it wants at the meeting."

New transport policy urged

There is no possibility that enough roads can be built in the UK to accommodate the forecast traffic growth, says the transport studies unit of Oxford University.

However many roads are built, the study says, congestion will become more widespread, and management of demand will have to replace the provision of supply as the *focus of* transport policy.

According to Transport Department forecasts, road traffic *is forecast* to be between 83 per cent and 142 per cent higher than 1988 levels by the year 2025.

Better deal for women urged

Trades Union Congress general secretary Norman Willis has pledged a better deal for women workers as the TUC women's conference called for the fight against sexual harassment at work to be stepped up.

"In little more than *four or* five years women will make up more than half the labour force," Mr Willis told delegates at Blackpool, north-west England.

Willis: called on employers to combat harassment

"That means we will make progress, not only if we are *seen to be responsive to* the needs of women, but increasingly that we are seen to be run by women."

The TUC's fight against sexual harassment at work was backed by delegates. A new set of guidelines has called on employers to have a policy to combat harassment and a procedure for dealing with it.

Minister to study crash

Roads minister Christopher Chope has said that the government would look hard at any lessons that could be learnt from the motorway pile-up on Wednesday morning in which ten people died and 25 injured.

Responding to the calls for automatic fog warning lights on motorways, Mr Chope said: "As the highway authority we provide the matrix signs and what is actually put on these signs is a matter for the police."

Mr Chope added that it appeared people were driving *far too fast.*

Tough Revenue line on loans

The Inland Revenue *has told* more than 100 employees that it is to stop paying interest on bridging loans they took out when moving jobs around the time of the property market crash in the late 1980s.

The need for loans continued much longer than the Inland Revenue intended because *employees have been unable* to get the kind of offers expected on their original homes and so have held on to their properties.

Prince attacks farm critics

The Prince of Wales has strongly attacked critics of *organic farming who he* said labelled the movement a "drop-out option for superannuated hippies."

In a passionate plea for greener farming, he called for radical reform of the Common Agricultural Policy.

Under CAP farmers were encouraged to produce excess food with intensive farming relying on fertilisers and manufactured animal feed, he said.

It was "wrong-headed and thoroughly unhelpful" to regard *farming as just another* business, said the Prince. "Farmers were the long-term stewards of the land, a precious natural resource," and they had to be supported to look after the countryside.

AMERICAN AIRLINES

US carriers to intensify transatlantic competition

By Paul Betts, Aerospace Correspondent

COMPETITION will intensify on transatlantic air routes with the arrival at London's Heathrow airport this summer of American Airlines and United Airlines, the two largest US carriers, Mr Robert Crandall, American's chairman said yesterday.

American is still waiting for the US government to approve formally its $445m (£239m) acquisition of Trans World Airways London routes.

But the revision of the US-UK bilateral air service agreement this week is expected to clear the way for US government approval of the American-TWA transaction.

Mr Crandall said American wanted to serve several airports in the London area and not just Heathrow. He confirmed plans to start a Miami non-stop service to Stansted, north east of London, next spring and expand American's presence at Gatwick, the city's second airport.

The presence of American at Stansted will represent a significant boost for the new airport complex which will be formally opened today. Its arrival is expected to encourage other big international carriers to consider operating out of London's third airport.

"Our strategy is to serve multiple airports in the London area," Mr Crandall said, adding that there would now be more effective transatlantic competition.

"Both American and United will be able to provide more competition for British Airways. The UK will also benefit by virtue of the higher level of flight frequencies than in the past," he said.

But American does not intend to expand in the internal European airline market.

Glyn Genin

Crandall: plans to serve multiple airports in London area

The airline plans to concentrate on intercontinental operations relying on smaller carriers to provide connections from main capital centres to other European destinations. "We will depend on airlines like British Midland and Dan-Air to provide these intra-European services. We will have marketing agreements with such carriers," he explained.

Mr Crandall attacked the European Commission's recent decision to support temporarily EC carriers because of the slump in the business caused by the economic recession and the Gulf war.

"I am very disappointed to see the EC and individual EC governments moving back towards protectionism," he said.

American, like all other airlines, had been badly hit by the slump. "Our financial results for the first quarter of this year will be perfectly awful," Mr Crandall said.

Even so, the airline still intends to pursue its international expansion strategy and had, so far, not decided to defer or cancel some of the $18bn-worth of aircraft it has ordered between now and 1994.

Mr Crandall said the company would clearly have to review its options if there was no reasonably prompt recovery in the airline market.

● More people are travelling by air now the Gulf war has ended, according to BAA, formerly the British Airports Authority.

Traffic at Heathrow was down by 17.1 per cent and at Gatwick by 19.6 per cent last week, compared with the same period last year. But BAA said: "This is a significant improvement on the previous week when numbers at these two airports were down by 23 per cent".

Stansted, Page 18; Swissair results, Page 19

Government to scrap controversial poll tax

By Philip Stephens, Political Editor

THE government has decided to scrap the poll tax, the controversial per capita charge designed during Mrs Thatcher's premiership to pay for local services and amenities in Britain.

Mr John Major, the prime minister, will announce the decision next week after promising yesterday to introduce a "fair" and "lasting" system of local government finance.

He told a committee of senior ministers yesterday that he had concluded that nothing could be salvaged from the community charge. His conclusion – that it is both administratively unworkable and politically disastrous – won the full endorsement of his Cabinet colleagues.

His decision marks the most dramatic political reversal since the Government came to power in 1979. The poll tax, which was introduced in Scotland in 1979 and in England and Wales last year, was once Mrs Thatcher's flagship. But it has cost the government billions of pounds and millions of votes.

Mr Neil Kinnock, leader of the opposition Labour party, claimed that the bill for taxpayers had already reached £10bn and demanded an immediate statement from Mr Major on his intentions.

Ministers acknowledged that the introduction of a new scheme could defer for several years significant cuts in income tax and could force a rise in indirect taxes.

In a brief statement after the ministerial meeting, Mr Major said: "We are close to settling proposals that are fair, that will not impose undue burdens on the local taxpayer, that will unite opinion and will provide a practical and lasting basis for the relationship between central and local government."

Senior ministers said Mr Major's blueprint for abolition of the poll tax involved a substantial shift in the burden of local authority financing to central government.

Cabinet meeting: Ian Lang (left), Kenneth Baker, Michael Heseltine, and David Hunt

Mr Major will pledge that this will hold down the level of bills and will avoid the switch back to a property tax from creating millions of new "losers" – particularly among Conservative voters in the south of England.

Details of the new property tax have still to be fully worked out. But the present plan is that it will linked through a banding system to the capital values of houses and flats.

Mr Major wants it to include also an element to take into account the number of adults living in each dwelling. Whitehall officials are seeking to refine a system under which each property will be charged initially on the basis of perhaps three adults with discounts then available for smaller households.

Ministers conceded, however, that the transition to the new system would cost the Treasury several billion pounds in each of the next three years. They said that it would be impossible to put the new scheme in place for at least two years but in the meantime the Government would be forced to greatly increase the level of rebates.

Export promotion departments integrated

Government hopes to improve trade performance

By Michael Cassell, Business Correspondent

THE GOVERNMENT is to integrate the export support resources of the Department of Trade and Industry and the Foreign and Commonwealth Office.

Mr Tristan Garel-Jones, the foreign office minister, said the move was aimed at boosting Britain's overseas sales performance and at ensuring the "consistent and coherent presentation and delivery" of export services for industry.

They will be marketed under the brand name "Overseas Trade Services".

The 1991-2 budget for promoting exports directly, which involves 2,000 people worldwide, is £158m, rising to £164m in the following year.

The decision is a recognition of the confusion among companies caused by the multiplicity of export support services, and is aimed at ensuring more effective deployment of UK and overseas staff to assist the business community.

Both departments will, from next month, combine resources in a joint directorate to spearhead export promotion.

It will be headed by Mr Oliver Miles, an undersecretary at the FCO and his 47-strong staff will be drawn from both departments.

The directorate will oversee the activities of 185 FCO posts abroad and of DTI regional offices and market branches in Britain.

Mr Tim Sainsbury, the Trade Minister, said the two departments had worked closely for years to promote UK exports but government support services needed, like exporters, to keep up with major changes taking place in international markets.

The approaching Single Market, the opening up of eastern Europe and opportunities in the wake of the Gulf war, all offered new opportunities to exporters.

He said that Britain's export performance had been outstanding. Visible exports in the last five years had totalled £432bn and daily exports of goods were running at £280m.

● Sir Derek Hornby, chairman of the BOTB, which guides the government's export promotion programme, yesterday set out target markets and sectors at which sales efforts should be directed.

The Board has concluded that overall priorities for export promotion should remain Western Europe, Japan – where British exports last year rose to £2.6bn – the Pacific Rim nations and North America.

Acquisitive companies attacked

By David Waller

MR JOHN Redwood, minister for corporate affairs, yesterday attacked acquisitive companies which unsuccessfully model themselves on Hanson and BTR, two stock-market giants which specialise in takeovers.

The aggressive pursuit of takeovers by companies in less skilful hands could easily lead to corporate collapse, the minister warned in a speech which dwelt on the government's response to the recent spate of corporate failures:

"It can divert management attention from crucial industrial issues in the main businesses of the group. It can entail paying too high a premium for new assets which it proves impossible to win back. It can take a group out of its depth or beyond its means. Ally too much financial gearing to too much operational gearing and you have the makings of a crash.

"The role model of success to many in British industry has been Hanson and BTR," Mr Redwood said. "Often loved by the stock-market, they have combined industrial skills with an instinct for acquisition that have rapidly increased shareholder value.

"Fewer have tried to emulate Glaxo or Pilkingtons building businesses on in-house ideas and technology."

Speaking at the RSA/Nomura bank seminar on corporate governance, Mr Redwood said the government had taken a number of steps in response to recent corporate failures, which include the demise of British & Commonwealth, Polly Peck, Parkfield and other large quoted companies.

He said he had drawn the attention of the Accounting Standards Board (ASB) to accounting weaknesses revealed by these failures, particularly as regards foreign currencies, leased assets, other off-balance sheet liabilities and extraordinary items.

He had also emphasised the importance of the audit profession ensuring that it disciplined any member who falls short of the behaviour expected and urged shareholders and managements to appoint independent non-executive directors, who should be in the majority on the audit and remuneration committees.

● The idea that institutional shareholders should play a more active role in the companies in which they invest, is given backing in a new document, published today by the Association of British Insurers.

The Responsibilities of Institutional Shareholders - A discussion paper - is intended to stimulate both better communication between investors and senior management and the more responsible exercise of voting rights by institutional shareholders.

MANAGEMENT

George Bain, principal of the London Business School, offers some answers to questions of ethics

Damned if they do and damned if they don't

Business schools and their staff are usually criticised for being too divorced from the real world, too remote from companies and the practical needs of managers, and too preoccupied with research and the "ivory-tower" concerns of academic disciplines.

In contrast, Simon Holberton in Unanswered Ethical Questions (Financial Times, February 28) argues that many business-school academics are too close to companies and, by engaging in both consultancy and research, run the risk of compromising their independence, diminishing their capacity for disinterested analysis, and tarnishing their reputations.

"Damned if you do and damned if you don't" is likely to be one reaction of much-criticised business-school academics. "Why pick on us?" is likely to be another. The pursuit of knowledge in virtually any subject area runs the risk of being biased by personal interest, whether this interest is financial, ideological or concerning one's reputation.

Even the more specific risk of academics compromising their independence and analysis by engaging in both consultancy and research is not unique to those in business schools. It exists for many, if not most, academics – not only those in professional schools and in the applied areas of engineering, science, and social science but also, as press reports and legal proceedings periodically remind us, in history, art, and philosophy. Indeed, even journalists – who are often hired by companies to produce promotional copy and to act as consultants and public-relations advisers - are not immune to the risk to which Holberton refers.

While such reactions by business-school academics may be understandable, they do not constitute an answer to Holberton's argument. The risk to which he refers does exist and, unfortunately, in some cases is a reality. Hence he has done us a service in raising the matter, although it is more complex, perhaps, than his argument implies.

He suggests that "academics should be asked to decide if they want to be a teacher/researcher or a consultant. Otherwise, the two roles risk increasing conflict." Assuming business-school academics were asked to make such a choice and did so, the risk of conflicting interests would not vanish; it would merely be transferred from the individual to the institutional level. Business schools, like accountancy firms with both auditing and consultancy practices, would still need to devise procedures to ensure that the risk did not become a reality.

In any case, to separate business-school academics into consultants and teacher-researchers would make them less effective. The main argument for consultancy in a business school is that, like research, it takes academics into firms and into contact with managers, and is thus potentially an excellent route to the skills and information stored in the business system.

It keeps academics abreast of managerial problems and practices and enables them, particularly if they have not pursued a business career, to acquire relevant knowledge and experience. Moreover, if the work is done well, it enhances their reputation and that of the school to which they belong. It can also generate teaching materials as well as research opportunities and access to them.

Consultancy work will be of value to a business school, however, only if it is of the right quantity and quality. If academics spend excessive time on consultancy, then their work for the business school – their teaching, research and administration – tends to become their secondary activity. Indeed, they may even become addicted to consultancy, rushing from one assignment to another with little capacity to reflect, let alone research – a parody of Mintzberg's "fragmented manager".

London Business School, therefore, like most international business schools, restricts the consultancy work of its faculty to a maximum of one day a week.

Consultancy should enhance academics' personal and professional development regardless of how much time they spend on it. Consultancy that is low level and repetitive (eg frequently repeated, routine teaching of junior executives) does not do so; rather, it causes intellectual stagnation and a decline in professional productivity. Hence at London Business School we encourage faculty members to avoid such consultancy assignments and to concentrate on those which, among other things, foster their professional development and learning, add to their reputation and that of the school, are concerned with the practical applications of research, and involve teaching of an innovative, developmental or influential kind.

A business school will find a policy of this kind easier to operate if it pays reasonable salaries. London Business School is in the midst of a four-to-five year process of raising faculty salaries by 50 per cent in real terms on a merit-related basis. The main reason for doing so is to enhance our ability to obtain the best faculty by being competitive with other international business schools. Another reason is to ensure that faculty members are not forced to undertake consultancy simply to exist. They require a salary that enables them to spend most of their time on teaching and research.

We further encourage them in this respect by offering a materials or research supplement; it is payable to those who are prepared to restrict their consultancy to 25 days a year and take on additional research and/or materials development activity, and represents about a 20 per cent salary increase for a junior member.

Regardless of what salaries business schools pay, Holberton is right to suggest that they should "cast a critical eye over the extramural activities of their staff". Business schools need to ensure that such activities are not only of the right quantity and quality but also that they do not compete with the school's own programmes.

At London Business School we require faculty members to report on their outside work every six months. They are required to specify the client, the nature of the work, the amount of time involved, its implications for personal and professional development and any benefits from it that may accrue to the school.

Such a report has the added advantage of enabling consultancy and other outside activities to be more effectively taken into account in annual reviews, contract reviews and promotions.

Holberton also suggests that business schools should "take a critical look at the sort of research their staff are doing and who is funding it. If the purpose of research is to increase our knowledge and understanding of the world then they should be alert to actual and potential conflicts of interest". Again he is right. But I do not believe he is right to imply that research cannot be objective or useful if it is funded by companies (and presumably also by such bodies as trade unions and government agencies).

A risk clearly exists "that he who pays the piper also calls the tune", but this risk is unlikely to become a reality if business schools and their faculty adopt an appropriate regulatory code of conduct.

In my view, such a code should contain the following rules:

- The work should possess academic interest. Ideally, it should be related to other work which is being done in the business school.
- Regardless of who is paying for the research, all parties with a vested interest in it should agree that it be undertaken.
- The business school should be free to decide how the research is to be carried out and to control the day-to-day management of the project.
- Data gathered under guarantees of anonymity should be made available to sponsors in such a way that these guarantees are respected.
- So long as all guarantees of confidentiality and anonymity are respected, the business schools should be free to publish any work, other than specific reports to sponsors, which derives directly or indirectly from the basic data.

No doubt these rules can be elaborated on and refined in various ways, and perhaps added to, but I believe they provide the basis for ensuring that research, whether sponsored or unsponsored, is both objective, to the extent that any analysis can be, and useful. The basic point is that business schools and their faculties need to formulate explicit rules and negotiate clear contracts so that companies know whether they are consulting clients or research-sponsors.

"British business," as Holberton points out, "needs research it can rely on." Good companies are aware of this need. They usually do not fund research in order to be told how good they are. Rather, they do so to obtain a better understanding of the forces bringing about change so that they can develop better approaches and techniques for managing it.

They are unlikely to be receptive to Holberton's suggestion that they channel the bulk of their research funding through a new foundation similar to the Economic and Social Research Council, however, because the need for such bodies to develop long-term research programmes tends to make them insufficiently responsive to company priorities.

If the amount of funding for management research is to be maintained, let alone increased, business schools will have to continue to look to companies for help in funding research. And if their faculties are not to become purveyors of out-of-date business practice, they will have to continue to act as consultants. If business schools and their faculties do neither, they might be purer (and certainly poorer), but they would also be much less effective, for excellence in this field inevitably requires a mixture of the theoretical and the practical, the basic and the applied, the academic and the vocational.

The way forward for business schools and their faculties is not to retreat into the cloister but, like the best companies and managers they study, to develop policies and procedures for successfully managing conflicts of interest and the ambiguities they produce. If they do, they will not become passive and uncritical "servants of power", but will use their teaching, research and consultancy to question, to discover and to innovate. And, in so doing, they will best serve not only their interests but also those of companies and managers.

More grist to the transnational mill

Christopher Lorenz takes issue with a view of trends in corporate global structures

Eight years ago Theodore Levitt heralded a trend towards the globalisation of (some) products and markets with the wild but much-publicised exaggeration that "the world's needs and desires have been irrevocably homogenised".

Too many companies took him literally, and started to act accordingly, until they were brought up short in the late 1980s by their Japanese competitors' demonstration of a much more subtle and effective strategy: globalisation of selected products (and components) with local or regional tailoring of many more.

Global strategies may have grown more subtle over the years, but precisely the same type of exaggeration as Levitt's is now being perpetrated over the extent to which corporate structures are really "going global".

Consider the following, drawn from an article in the latest Harvard Business Review*. In the emerging global corporation, "the location of headquarters is not a matter of great importance". The HQ is "not even necessarily in the country where most of the company's shareholders or employees are", the article also maintains. Research and development, not merely manufacturing, are now carried out across the world in "global webs" in which – we are told – high added-value activities are sited with almost total disregard to the company's headquarters nation.

The article's author is Robert Reich, a professor at Harvard University (whose book "The Work of Nations: Preparing Ourselves for 21st Century Capitalism" was reviewed in yesterday's FT).

Citing a spate of companies which have dispersed some of their divisional head offices and R&D units across the globe, Reich implies that almost all western multinationals are developing along the same lines. And he argues that Japanese corporations will be forced by various pressures to follow suit.

Many of Reich's examples will be familiar to readers who have followed this newspaper's tracking of the development of "transnational" organisations: Hewlett Packard, ABB, Philips, IBM, Sony, Unilever, Procter & Gamble, Britain's APV, and so forth.

What he fails to appreciate – or to admit – is first, that these are still rare exceptions; second, that many of them have only one or two really "transnational" divisions (IBM's first takes effect only this year); third, that only a handful have a "transnational" head office; and fourth, that some of the pioneers (such as APV) are having great difficulty making the concept work effectively.

Reich also makes the mistake of exaggerating the importance of dispersed "R&D" units. With a few exceptions, most of the much-publicised Japanese R&D laboratories which have been opened so far in the US and Europe are just that: off-line laboratories at arm's length from where the real added value is done, and decisions taken – which is back home.

The same even applies to some of the most experienced western multinationals. Several US electronics groups receive justified plaudits for the amount of development work they do in Europe, yet do most of their really high technology development very close to home.

As a result, their home countries still benefit markedly from the well-known "headquarters effect": an unusually high concentration of technical skills and senior decision takers.

Reich has certainly caught up with a trend. But he confuses the exception with the rule. Unlike Levitt's uniformly globalised products and markets, Reich's nationally neutral "global webs" may eventually become the norm – but not until well into the 21st century.

He is right in arguing that national location of high added value activities is more relevant to government policy-makers than is the question of national ownership. But that does not mean, as he suggests, that nationality is now irrelevant. Far from it.

*HBR March-April 1991. Reprint No 91206.

THE PROPERTY MARKET

Son of Tunnel

AWAY from the sound and fury of the Eurotunnel project, a new property company has quietly emerged. As yet, Eurotunnel Developments is virtually a shell company with no gearing and one project under way. But it will soon embark on a clutch of projects, which together are worth over £500m.

Eurotunnel has spawned a property company almost by accident. Much of the land in Eurotunnel Development's portfolio, mainly in Folkestone and Ashford, was originally involved in some way with the tunnel's construction, or has proved surplus to the tunnel's requirements. By chance, Eurotunnel also had property management expertise. Mr David Wilson, the administration director of Eurotunnel, had worked for Trafalgar House, Bovis and British Land.

There are not many companies embarking on ambitious development projects in the teeth of the recession. However, Eurotunnel Developments is confident that Robert Fleming will be able to arrange a syndicated loan in the early summer. This will allow it to get going, although it is seeking joint venture partners for the larger projects.

David Wilson, administrative director of Eurotunnel: property expertise

Eurotunnel Development's confidence depends largely on its land bank. Eurotunnel has agreed to sell spare land to Eurotunnel Developments at the relatively low agricultural values it paid in the mid-1980s, plus interest costs. The rise in values as a result of the infrastructure improvements provides the basis for Eurotunnel to raise money.

This debt will have no recourse to Eurotunnel. "We are not supported by Eurotunnel. We are running the company as a fully fledged property development company," says Mr Wilson.

Eurotunnel Development's largest scheme, known as Waterbrook, is a 190-acre site at junction 10 of the M20 just outside Ashford. The core of the site was originally bought to be the inland clearance depot for goods crossing the channel. However, once it became clear that trade barriers would be lowered in 1992, Eurotunnel was free to use the site for other purposes. These will include a large hypermarket, warehouses, distribution depots, a truck stop and, a cattle market moved from the centre of Ashford.

In Folkestone, it is planning a £40m scheme called Cheriton Parc, on a site now used by the exhibition centre. The company also owns 440 acres near Dover, where the tunnel workers are now accommodated, which will be redeveloped into a hotel, golf course and homes when the tunnel is finished.

Eurotunnel is handicapped in developing on the French side of the Channel because its lease on the land lasts only until 2042. However, in general, developments in France may have an advantage over their UK counterparts because of much cheaper land values.

Nonetheless, Mr Wilson exudes confidence about the UK schemes, believing that their completion will coincide with the upturn of the property cycle and the completion of the Channel Tunnel. "We aim to capitalise on that," he says.

Vanessa Houlder

Swedes search for more 'pearls'

By Vanessa Houlder

Fastighetsaktiebolaget Hufvudstaden is a smaller, Swedish version of Land Securities. After 75 years, Hufvudstaden is Sweden's most established property company with a market capitalisation of about £1bn.

That means it can afford to take a measured view of the storms lashing the world's property markets, in contrast to some Swedish investors who have been beaten into a retreat by a fragile banking system and falling property values.

Hufvudstaden is in the throes of increasing its international portfolio over the next five years until it accounts for 30-40 per cent of its total property assets. It wants to diversify its risk and reduce its exposure to the Swedish market, after years of being largely confined within it by currency restrictions. Until the Swedish government abolished its 50 year old system of exchange controls in 1988, investors were barred from putting money overseas.

"The Swedish market is too in-locked," says Mr Curt Olsson, chairman of Skandinaviska Enskilda Banken, Sweden's largest bank who sits on the board of Hufvudstaden. "There was too heavy investment in a small market."

Hufvudstaden is not starting from scratch in its international expansion. Over the years, it has got round the exchange controls by building Swedish Centres, which were judged to promote trade and by acquiring a property offshoot of Swedish Match, which as an industrial company was subject to less severe exchange restrictions. Accordingly, even before exchange controls were lifted, it had buildings in Toyko, Paris and London.

The removal of the regulations will allow it to speed up the internationalisation of its portfolio, although it will still be constrained by its insistence on financing new acquisitions from income. The only planned divestment concerns residential property outside Stockholm in Sweden, which it bought as a second-best way of diversifying its risk.

"Our strategy is to be in big cities because the risk is less," says Mr Lars Oberg, chairman. "As a banker, I see that property companies are most likely to lose more if they invest in suburbs and low quality buildings," adds Mr Olsson.

London tops the bill for further investment at the moment. Hufvudstaden is not deterred by its purchase near the top of the market two years ago of Cunard House, a 50,000 square foot office building in Lower Regent Street, which has just been refurbished and which is looking for a tenant.

It has gone on to buy a half share in a 80,000 sq ft building in Great Marlborough street in London's West End for £9m, which will be demolished and rebuilt in two years and it continues to look for "pearls" in the West End of London.

"It is a civilised part of London," says Mr Dan Brostrom, managing director of Hufvudstaden in the UK. "It has the type of buildings we go for and the imbalance [between demand and supply] is not as great as in the City." The City will be considered, but not yet.

Hufvudstaden has made a tentative move into Germany, with an acquisition of a a £6m office site in west Berlin. "We will see what happens. It is a very turbulent market," says Mr Lars Oberg, chairman.

He applies the same adjective to Hufvudstaden's domestic market, which has been hit by a financial crisis and rising vacancy rates. "Today, we are in a very turbulent situation; we can't see an end to it."

Will Sweden's application to join the EC make much difference? Overall it could, says Mr Olsson. That is because it might counteract the pressure on Swedish industry to invest inside the EC in case external trade becomes more difficult.

Furthermore, it seems likely that the Swedish government will have to remove the barriers against foreign investment, which could stimulate the property market. "It could encourage investment in Sweden in the long run," argues Mr Oberg. But he warns against euphoria. "We are going into a recession. We have a finance and property crisis. If the change comes now it will have no impact."

For Hufvudstaden, the gloom about the the state of the Swedish economy is mitigated to some extent by the government's embrace of the EC and apparent move towards a market economy. Nonetheless, uncertainty about Sweden's future appears to run deep.

The difficulties at home and the opportunities of faster investment abroad mean that the next few years for Hufvudstaden should be challenging.

CAPITAL GROWTH (%)

	Retail	Office	Industrial	All Properties
Year to Jan 91	-11.4	-14.8	-10.5	-12.7
Quarter to Jan 91	-2.6	-6.0	-3.0	-3.7
Month of Jan 91	-0.8	-2.1	-0.8	-1.3

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COMPANY NOTICES

Ford

Following the DIVIDEND DECLARATION by Ford Motor Company (U.S.) on 10 January 1991 NOTICE is now given that the following *DISTRIBUTION will become payable on or after 15 March 1991.*

Gross Distribution per unit	3.7500 cents
Less 15% USA Withholding Tax	0.5625 cents
	3.1875 cents
Converted at $1.9025	£0.01675427

Claims should be lodged with the DEPOSITARY: National Westminster Bank PLC, 5th Floor, 21 Lombard Street, London, EC3P 3AR on special forms obtainable from that Office.

United Kingdom Banks and Members of the Stock Exchange should mark payment of the dividend in the appropriate square on the reverse of the certificate.

All other claimants must complete the special form and present this at the above address together with the certificate(s) for marking by the National Westminster Bank PLC. Postal applications cannot be accepted.

Date: 15.03.91

LEGAL NOTICES

SHERWOOD TRANSPORT AND STORAGE LIMITED

Registered number: 1796295
Former company name(s):- Gwyn Thomas & Son (Skelty) Limited
Nature of business: Transport Haulage Company
Date of appointment of joint administrative receivers 27 February 1991
Name of person appointing the administrative receivers: Lloyds Bank Plc
JOSEPH PATRICK CONSIDINE and RICHARD ANTHONY SMART
Joint Administrative Receivers
(office holder nos 056 and 288) of Cork Gully, Churchill House, Churchill Way, Cardiff CF1 4XQ

ILLTYD THOMAS & SONS (HAULAGE) LIMITED

Registered number: 1016554
Nature of business Transport Haulage Company
Date of appointment of joint administrative receivers 27 February 1991
Name of person appointing the administrative receivers: Lloyds Bank Plc
JOSEPH PATRICK CONSIDINE and RICHARD ANTHONY SMART
Joint Administrative Receivers
(office holder nos 056 and 288) of Cork Gully, Church House, Churchill Way, Cardiff, DG1 4XQ.

YARDMYTH LIMITED

Registered number: 1914073
Nature of business Property Holding Company
Trade classification: 46
Date of appointment of administrative receiver: 7 March 1991
Name of person appointing the administrative receiver: Mercantile Credit Company Limited
JOHN FREDERICK POWELL
Administrative Receiver
(Office holder no 249) of Cork Gully
43 Temple Row
Birmingham B2 5JT

ADRIAN HOVEY LIMITED

Registered number: 2064128Nature of business: Wholesale & retail distribution of paints & productsDate of appointment of joint administrative receivers 26 February 1991Name of person appointing the administrative receivers: Barclays Bank PlcJOSEPH PATRICK CONSIDINE and RICHARD ANTHONY SMARTJoint Administrative Recievers(office holder nos 056 and 288) of Cork GullyChurchill HouseChurchill WayCardiffCF1 4XQ

NORTH EAST TRANSPORT LIMITED

Registered number: 2304411
Nature of business. Transport Haulage Company
Date of appointment of administrative receiver: 27 February 1991
Name of person appointing the administrative receiver: Lloyds Bank Plc
JOSEPH PATRICK CONSIDINE and RICHARD ANTHONY SMART
Joint Administrative Receiver
(Office holder no 056 and 288) of
Cork Gully
Churchill House
Churchill Way
Cardiff CF1 4XQ

NORTH WEST CARRIERS LIMITED

Registered number 1794060
Former company name(s) - Skelty Star Transport Limited
Nature of business. Transport Haulage Company
Date of appointment of joint administrative receivers 27 February 1991
Name of person appointing the administrative receivers Lloyds Bank Plc
JOSEPH PATRICK CONSIDINE and RICHARD ANTHONY SMART
Joint Administrative Receivers (office holder nos 056 and 288) of Cork Gully
Churchill House
Churchill Way
Cardiff
CF1 4XQ

ADRIAN HOVEY (BUILDERS MERCHANT) LIMITED

Registered number 1908569
Nature of business Builders Merchant
Date of appointment of joint administrative receivers 26 February 1991
Name of person appointing the administrative receivers. Barclays Bank Plc
JOSEPH PATRICK CONSIDINE and RICHARD ANTHONY SMART
Joint Administrative Receivers
(office holders nos 056 and 288) of Cork Gully
Churchill House
Churchill Way
Cardiff CF1 4XQ

BRAUNSTONE HAULAGE LIMITED

Registered number 1638501
Nature of business: Transport Haulage Company
Trade classification 19
Date of appointment of administrative receivers: 27 February 1991
Name of person appointing the administrative receivers. Lloyds Bank Plc
JOSEPH PATRICK CONSIDINE and RICHARD ANTHONY SMART
Joint Administrative Receiver
(Office holder no 056 and 288) of
Cork Gully
Churchill House
Churchill Way
Cardiff CF1 4XQ

ADRIAN HOVEY (PONTYPOOL) LIMITED

Registered number 2465228
Nature of business Builders Merchant
Date of appointment of administrative receiver 26 February 1991
Name of person appointing the administrative receiver Barclays Bank Plc
Joint Administrative Receiver
JOSEPH PAGRICK CONSIDINE and RICHARD ANTHONY SMART
(Office holder no 056 and 288) of
Cork Gully
Churchill House
Churchill Way
Cardiff CF1 4XQ

MONARCH CARS (TAMWORTH) LIMITED

Registered number 2047135
Nature of business: Motor Dealership
Trade classification. 19
Date of appointment of administrative receiver: 7 March 1991
Name of person appointing the administrative receiver Mercantile Credit Company Limited.
JOHN FREDERICK POWELL
Administrative Receiver
(Office holder no 249)
Cork Gully
43 Temple Row
Birmingham
B2 5JT

COMPANY NOTICES

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FT LAW REPORTS

Arbitration award was made in Paris

HISCOX v OUTHWAITE
Court of Appeal (Sir John Donaldson, Master of the Rolls, Lord Justice McCowan, and Lord Justice Leggatt): March 11 1991

AN ARBITRATOR'S award is "made", not necessarily at the seat of the arbitration, but at the place where the arbitrator, having reached his final determination so that he can no longer revoke or vary the award, signs or executes it.

The Court of Appeal so held when dismissing an appeal by the respondent Mr Richard Outhwaite, from Mr Justice Hirst's dismissal of his preliminary objection to the court's jurisdiction to hear an application by Mr Robert Hiscox for leave to appeal from an arbitration award. The court (the Master of the Rolls dissenting) also held that the English court, acting in its supervisory capacity, has no jurisdiction to hear an appeal from a Convention award once it has become binding. It further held (Lord Justice Leggatt dissenting) that Mr Outhwaite was estopped by his conduct from raising his objection to the applications.

[A "Convention award" is an arbitration award made in a state other than the UK which is a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.]

SIR JOHN DONALDSON MR said that a re-insurance dispute was referred to a sole arbitrator, Mr RA McCrindle QC.

The arbitration agreement *provided that arbitration* should take place in London. Both the arbitration agreement and the reinsurance contract were governed by English law.

At the second stage of the arbitration Mr McCrindle made a draft award and then, after a further hearing, made a final interim award, dated November 20 1990, signed and witnessed in Paris.

On November 20, Mr McCrindle's clerk informed Mr Hiscox's solicitors that the award could be taken up at 4 Essex Court Temple. They collected it shortly after.

On December 10, Mr Hiscox initiated proceedings for, *inter alia*, leave to appeal from the award to the High Court.

Mr Outhwaite took a preliminary objection that the award was a Convention award and that, under the Arbitration Act 1975, the High Court was disabled from adjudicating on those proceedings.

Mr Justice Hirst held it was not a Convention award.

Mr Outhwaite appealed.

The 1975 Act, by its long title, was "An Act to give effect to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Section 7(1) defined a Convention award as an award "made in the territory of a state other than the UK, which is a party to the New York Convention". France and some 50 other countries were party to the Convention.

Whether this was a Convention award depended on whether it was "made" in France.

Mr Justice Hirst held that the award was "made" in London, that being the central point of the arbitration proceedings.

That view was not accepted.

In *Brooke v Mitchell (1840) 6 M&W 473*, which was concerned with whether an award was "made and published", Baron Parke said that for the award to be sufficiently published the arbitrator "should have done some act whereby he became *functus officio* and has declared his final mind". Baron Alderson said "the award is made and published when the arbitrator, by some act, has expressed his final *determination*". Baron Gurney said publication was complete when "the umpire could not afterwards revoke or alter it".

What the court had to look for was the point at which the award could not be revoked or altered, and when the *arbitrator had expressed his final* determination, and was *functus officio*.

The court had to balance the facts that Mr McCrindle did not revoke or vary the award once he had signed and dated it in Paris against the fact that he only became *functus officio* when he put it out of his power to do so by notifying parties in London that the award was ready for collection.

Where an award stated it was dated or signed in a particular place, that was the place where it had been made. If no such statement was included, it should be taken to be made in the place where it was made available to the parties or from which it was sent to the parties.

In no circumstances should there need to be a factual enquiry by the enforcing court as to where an award was signed, if that did not appear on the face of the award.

This was therefore a Convention award.

The second question was whether the court could entertain Mr Hiscox's applications.

Mr Sumption said no. He argued that a Convention award was *enforceable* and binding (see sections 3(1), 3(2), 5(1), 1975 Act): and that the defence to enforcement (section 5(2)(f)) did not apply because the award had become binding and had not been "set aside or suspended by a competent authority *of the country* in which, or under the law of which, it was made".

If Mr Sumption's submission was correct no competent authority in any Convention country could ever set aside or suspend a Convention award, even if the award was being enforced in another Convention country. As soon as an application to set aside or suspend was made to the competent authority in another Convention country, it would be met with the answer that the court was also an enforcing court in the sense that it was required to allow the award to be relied on in any proceedings and accordingly could only adjourn the application (see section 5(5)).

That made nonsense of the role of the competent authority *as contemplated by* the Convention, and left the award and arbitration entirely unsupervised.

The answer lay in treating a court which was a competent authority and an enforcing court, as two separate courts *with the judges wearing two* different hats or wigs. The Convention then worked as it was intended to do.

A third issue was whether Mr Outhwaite was estopped by his conduct from raising his objection to Mr Hiscox's applications.

Letters between solicitors in relation to the draft award showed that both parties assumed that an award "dated at Paris" was no obstacle to exercise of the English courts' supervisory jurisdiction. The assumption was never questioned when the award was still only in draft and an amendment could easily have been made. It would be unconscionable now to allow Mr Outhwaite to renege from the common assumption.

The appeal was dismissed.

LORD JUSTICE McCOWAN said there was nothing to suggest that the arbitrator had not declared his final mind (see *Brooke*, Parke B) from the moment he put his conclusions in a formal document and signed it in front of a witness. This was a Convention award.

Section 5 (2)(f) of the 1975 *Act provided* that enforcement of a Convention award might be refused if it had not yet become binding, or had been set aside or suspended "by a competent authority of the country in which, or under the law of which, it was made".

By section 3(2) of the Act the award had to be "treated as binding for all purposes on the persons as between whom it was made"; and the award had not been set aside or suspended. Therefore Mr Hiscox was unable to bring himself within section 5(2)(f).

On the plain words of the 1975 Act Mr Outhwaite's arguments on this aspect of the case must succeed.

However, the appeal should be dismissed on the ground of estoppel.

LORD JUSTICE LEGGATT said the award was executed (see *Brooke*, Parke B) in France. It was therefore a Convention award.

The Act did not envisage that the award would be subject to the supervisory function of the English court.

With regard to estoppel, Mr Outhwaite and his advisers never encouraged Mr Hiscox or his advisers to pursue a remedy in the English courts or to believe that if he did so no jurisdictional objection would be taken. There was mutual failure to appreciate the fact that the award was made in France was material. Therefore Mr Hiscox could not raise an estoppel to prevent the award from having effect as a Convention award. The appeal should be allowed.

For Mr Outhwaite: Jonathan Sumption QC and Christopher Butcher (Elborne Mitchell & Co).

For Mr Hiscox: Anthony Colman QC, Jonathan Gilman QC and John Lockey (Fishburn Boxer).

Rachel Davies
Barrister

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LEGAL NOTICES

No. 001902 of 1991
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN HTE MATTER OF SWADDLERS LIMITED
AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY that a Petition presented to Her Majesty's High Court of Justice on 15th February 1991 for the confirmation of (1) the reduction of the capital of the above-named Company from £25,000,000 to £20,595,150 and (2) that the amount standing to the credit of the Company's Share Premium Account be cancelled is directed to be heard before the Honourable Mr. Justice Harman at the Royal Courts of Justice, Strand, London WC2A 2LL on Monday the 25th day of March 1991.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reductions of capital and cancellation of the *Share Premium Account should appear a the* time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED this 15th day of March 1991
Mackenzie Mills of
76 Shoe Lane,
London EC4A 3JB

Solicitors for the above-named Company

COMPANY NOTICES

GENERAL MOTORS CORPORATION

Further to the DIVIDEND DECLARATION of 1st March 1991 NOTICE is now given that the following distribution will become payable on and after 15th March 1991 against presentation to the Depositary (as below) of Claim Forms listing Bearer Depositary Receipts.

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TECHNOLOGY

Michael Field in Kuwait explains how fire-fighters will put out hundreds of oil wells burning throughout the country

Preparing to wage war against flames

"WE'VE NEVER had to tackle anything like this before – this is the worst disaster in world history," said Paul King, a paunchy Oklahoma oil man with OGE Drilling, the company that is co-ordinating the campaign to extinguish the Kuwaiti oil fires.

Less than a mile from where he was standing is the edge of the great Burgan oil field, the biggest in the world after Al-Ghawar in Saudi Arabia, with at least 45bn barrels of proven reserves. Here every well is burning with a roar that makes the ground vibrate. Jets of exploding oil and gas squirt into the air, surging every few minutes to produce even bigger pillars of flame which spread out into huge smoky orange fire balls.

Above the fire, columns of black smoke are pushed up into the sky to join the famous grey "oil cloud" that hangs permanently above Burgan and is blown sometimes north to Kuwait City and Iraq, sometimes east to Iran and sometimes southeast to the Saudi coast, the Gulf and eventually the Indian sub-continent.

The exploding wells represent the biggest oil field disaster, industrial disaster and possibly ecological disaster there has ever been. It is thought that about 5m barrels a day is being burnt at present, equivalent to nearly three times Britain's oil consumption. Kuwait is losing $100m a day of assets.

Some 500 wells are burning. The previous record for simultaneous blow-outs was only three wells. A further 300 are mined with explosives that did not go off, or were blown up but had their fires go out for natural reasons. In some cases this was because pressures dropped when the well-heads and choke systems were blown away; in others it was because the lack of a choke caused a rise in the water content of the oil flow, which made the combination non-inflammable. It is thought unlikely that many more wells will extinguish themselves in this way.

In most cases the Iraqis did a much more professional job on demolishing the oil wells than they did on the rest of Kuwait's infrastructure. Explosives were packed round the foot of each well and covered with sandbags, so that the force of the explosions went inwards and downwards.

Managers of the Kuwait Oil Corporation (KOC), many of whom were forced to co-operate with the Iraqis, say that advisers from the Iraqi state oil company were flown in to help set the charges. They claim that some of the Iraqis involved have been at the Opec talks in Geneva this week.

The work of putting out the fires is not going to start for about a fortnight. So far, the fire-fighters have made their assessment of the job and are now awaiting the arrival of their equipment. They are being co-ordinated by OGE Drilling of Houston and backed by the US construction giant Bechtel, which is organising the purchase and movement of materials.

The schedule for mobilisation is being stretched by the total lack of any sort of support in Kuwait. Bulldozers, trucks, drilling rigs, well heads, all the specialist fire-fighting equipment, even food is having to be flown in. The enormous quantities of water that will be needed to protect the fire-fighters as they work on the wells will have to be pumped from the Gulf through the lines which used to carry oil to the loading terminals.

A temporary problem is that the central Kuwaiti oil fields are dotted with abandoned Iraqi munitions and unexploded bits of allied cluster bombs. The fields near Kuwait's borders are covered with mines, though the Iraqi army has now provided the American forces with maps of these, which are being passed to KOC.

At the beginning it is hoped to deploy eight teams of fire-fighters, and then, once these have proper support, the number may be expanded to 12 or 14 teams. According to Larry Flak, the OGE Drilling manager co-ordinating the teams, the operation will run more like an assembly line than the usual one team per well approach. "We'll have one set of guys preparing the well areas, another putting out the fires and another capping the wells, and so forth," he said.

A limit to the number of teams that can be used is imposed by there being only a handful of oil well fire-fighting companies in the world. Red Adair, Boots and Coots, Wild Well Control (all of Houston) and Safety Boss of Calgary have been deployed so far. The cost of the fire-fighters' contracts has not yet been calculated.

The teams will begin work on the relatively small wells at the airport, so that aircraft can fly in more easily, and then move to the Burgan, Magwa and Ahmedi complex of fields. They will extinguish the fires either by explosions or by spraying them with liquid nitrogen.

Where enough of the well assembly is left above ground they will then lower a new well head on to the oil jet. If this is not possible they will seal off the protruding pipe by fitting and activating a blow-out preventer, which will cut off the flow of oil by causing an enormous, heavy ram to slice through the remains of the pipe and block the oil by its sheer weight.


Some 5m barrels of oil a day go up in smoke

In more serious cases, where there is almost nothing above ground, or no more than a hole in the ground, the fire-fighters will excavate around the well and make a clean cut in the highest intact piece of pipe (well casing), using a flexible braided steel line, drawn to and fro between two winches. All this will be done while the fire is still burning. The fire-fighters will be working under galvanised, reflective, mobile sheds being sprayed with water. Once they have made a clean cut they will put out the fire and fit a blowout preventer.

In the most extreme cases directional relief wells can be drilled so that concrete can be injected to block the exploding well below the ground.

Officials of the companies involved say that they reckon all the burning wells will be extinguished in one to two years, though some 50,000 b/d of oil from intact wells will be brought on stream to feed Kuwait's power stations in a matter of weeks.

Later, production may be raised to 150,000 b/d to feed other domestic consumption, and in about a year a small amount of exports might begin. In six or seven years Kuwait's oil fields should be back to their pre-war state – as far as it is possible to achieve this.

Kuwait's oil fields will be permanently damaged by the disaster that has befallen them. Some 5 per cent of their reserves will actually go up in smoke. This will be about 3bn barrels, equivalent to the biggest North Sea oil field when it was first discovered.

Another huge quantity of oil – the exact amount cannot yet even be guessed at – will be lost through the permanent reduction of oilfield pressure that results from 500 simultaneous blowouts.

Kuwait's oil wells were once the most productive in the world and its oil the cheapest to produce. In the future the cost of running Kuwait's oil operations will remain quite low, once the cost of fire-fighting has been written off. But the country will never achieve its pre-war rates of production per well.

At present oil prices, Kuwait's and the world's capital loss in burnt and unrecoverable oil might run to $100bn.

Bull charges in with a new set of rules

By Alan Cane

Groupe Bull, the French state-owned computer manufacturer, yesterday published the road map and compass for its computer product strategy for the 1990s.

It took advantage of the CeBit computer trade fair in Hanover, Germany, to demonstrate the "Bull Distributed Computing Model".

It is largely a set of specifications for services, application interfaces and exchange protocols that define how Bull and other manufacturers' products will communicate with each other – in other words, a set of rules which Bull will follow and to which other companies can build bridges. It is similar in concept to International Business Machine's Systems Applications Architecture.

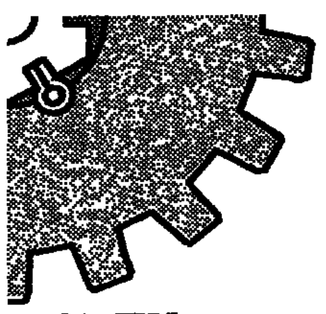
Francis Lorentz, Bull chief executive, said the Bull model would help customers solve business problems and help management information systems departments make use of distributed systems – systems which parcel out computing power around an organisation rather than centralising it in a data centre.

The model, for example, makes a company's entire information system accessible to a user simply through his or her workstation. There will be no need to know where programs or data are located in the system.

The Bull Model is expected to prove critical to the company's commercial performance. It has lost money heavily over the past two years as a result of moving too slowly from systems based on proprietary designs to systems based on "open" designs which use industry standard components and operating software.

The French government has already agreed to fund an FFr11bn (£1.1bn) project to unify the company's range of operating systems.

Among products already released for the model are the DPX Unix-based workstation line; yesterday Bull announced OpenTeam, a software system that allows customers to organise work groups using microcomputers around Unix-based network servers.



WORTH WATCHING

by Della Bradshaw

Smart cards send phone bills home

MOTOROLA, the US electronics and communications company, has come up with the solution for business travellers who want to use their mobile phones overseas.

The company's latest range of phones, which will work on the pan-European cellular radio network when it is introduced from July, uses smart card technology to overcome billing problems.

The smart cards, slivers of plastic with microchips embedded in them, can be removed so that each phone can be used with several cards – each card containing details of the user, including billing address. Eventually business travellers could take the card out of their car or hand-held phone and slot it into the phone which they hire at their destination airport.

Rubbish goes to the sand pits

HOUSEHOLD rubbish can now be transformed into sand, through a process developed in Switzerland.

The Gomacris process, devised by the Martigny-based company of the same name, involves turning all types of household waste into mineral granules. These can be used in construction sand, fertilisers or even cat litter.

The process involves shredding the waste and turning it into small granules. Quicklime and calcium are added and the mixture passed through two large ovens heated to 280 deg C. The waste is also put under pressure and bombarded with very intense light.

This combination produces the same results as if the waste were heated to 12,000 deg C, say the inventors.

Financial data never get stale

A POCKET-SIZED gadget which displays up-to-the-minute financial information on a range of shares, foreign exchange rates and commodities is now available in the greater London area.

The service, from Sprintel, of High Wycombe, enables customers to keep track of a personalised list from different markets such as Liffe, metals, equities and foreign exchange. The monitor warns when the price moves outside a pre-set high or low figure by bleeping and displaying the figures on the screen.

The information from the exchanges is fed into the Sprintel computer and processed. Information is then selected for each customer and sent over a dedicated radio channel to the monitor.

Fax and voice join timeshare

CUTTING the company's phone and facsimile bills is something near to every finance director's heart. To help achieve this Pacific Communications Sciences has developed a compression system which enables companies to squeeze eight voice, fax or data signals down a single 64 kilobit/s leased line.

The compression technique used in the Clarity Series CS8000 multiplexer, sold in the UK by Certacom, of High Wycombe, gives acceptable voice quality at low bandwidths says PCSI. It also detects the difference between voice, data and fax signals – so the equipment can be used for all three kinds of traffic without the need to dedicate a proportion of the eight lines to each.

Contacts: Motorola: UK, 0256 817474. Gomacris: Switzerland, 026 22 14 08. Sprintel: UK, 0494 444415. PCSI: US, 619 535 9500. Certacom: UK, 06285 27972.

هكذا من الأصل

ARTS

Detail from a Rossetti watercolour of Elizabeth Siddal

Siddal the Pre-Raphaelite Pygmalion

Patricia Morison enjoys Rossetti's vision of Lizzie Siddal, but decides she had no talent of her own

If Lizzie Siddal were to rise from her tomb in Highgate Cemetery, coil up her famous mass of red hair and glide in to the newsagents for a copy of today's *FT*, I wonder which would give her the greater *frisson* of pleasure: to discover that there is an exhibition of *Rossetti's Drawings of Elizabeth Siddal* at the Ashmolean Museum in Oxford or, by a weird coincidence, that the Ruskin Art Gallery in Sheffield is showing *Elizabeth Siddal. Pre-Raphaelite Artist 1829-62.*

Should Lizzie the *revenante* be thinking along orthodox feminist lines, it will be the idea of a first solo exhibition which will bring the roses to her admired – although unfashionably freckled – complexion. The moving spirit behind the Sheffield exhibition (which runs until April 13) is Dr Jan Marsh, author of a fine recent study, *The Legend of Elizabeth Siddal* (Quartet Books 1989, £15.00, pp.244). Legend would have it that she was a 17-year-old "stunner" discovered making hats by the Pre-Raphaelite Brotherhood and swept off to model for spiritual-looking ladies in difficult poses. (I am happy to report that Dr Marsh accepts as true the much-loved story of the patient beauty who for hours floated in a tin bath posing for Millais's "Ophelia").

Dr Marsh shows that there was more to Lizzie Siddal than Rossetti's elegantly consumptive model, his thwarted mistress and at long last, his wife. Siddal was a committed artist. Her sights were already set on design school when, aged 20, she engineered the fateful meeting with the PRB. The deal she struck was modelling in return for tuition (where the sex and marriage element fitted in is less certain). Soon she was labouring at her easel in the corner of Rossetti's studio and, after a while, he fell head-over-heels with her. Siddal's tragedy was not so much because she faced the barriers all Victorian women did who wanted to be artists, but because she was working-class.

There could not be a better pace for this well-devised exhibition than the Ruskin Gallery. John Ruskin heartily championed Siddal's work and gave her a generous allowance for several years. (There was a skittish side to Siddal, for when he sent her to the south of France for her health she disobeyed his express instructions by stopping off in Paris and blowing all her allowance in the shops.) Evidence Dr Marsh has uncovered in Sheffield helps support the notion of Lizzie as the plucky feminist. Siddal's father was a cutler who moved to London from Sheffield so at the point when she despaired of Rossetti, she went north to the art school in Sheffield.

The exotic Londoner's trailing Pre-Raphaelite gowns made the cutlers' daughters giggle but she later merited an obituary in a local paper according to which, the "amiable young artist" was a martyr to her art. She worked so hard to please her patron, Mr Ruskin, that she overtaxed her feeble constitution. Over-work "induced a secret habit which has proved fatal to many", a reference to the fatal overdose of laudanum which took poor Lizzie to her untimely grave.

At the Ruskin Gallery you will find gathered together most of Siddal's small surviving output of sketches, drawings, and watercolours, together with photographs taken from Rossetti's glass-negatives of drawings which have disappeared. (Since the exhibition opened two more drawings have been found.) For her oil self-portrait which Rossetti described as "a perfect wonder" we must also make do with a photograph since it was sadly unavailable for loan.

What, then, of Siddal's work? It is, in a word, feeble. In a decade, her grasp of composition seems hardly to have improved. When she had an original idea it was rarely a happy one. Whoever encouraged her to replaced the manger in the Nativity with a waist-high structure like a folding picnic table? Her figures are wooden little creatures in night-shirts, her attempts at drapery disastrous. An unusually convincing figure of a little boy stepping up against the battlements of a castle was, one suspects, contributed by one of her mentors.

As you might expect, the acolyte faithfully mirrored every Pre-Raphaelite obsession, taking subjects from the Bible, medieval romances, and taking ambitious themes from Scott, Tennyson, Browning, ballads, and Rossetti's own poems. Her own taste inclined towards spooky subjects and scenes depicting women, sometimes virtuous, occasionally wicked, and almost all of them suffering. Jeptha took her fancy, slain by her father. Tennyson's nun on St Agnes's Eve is draped around one of the unconvincing portholes which fill her pictures. We can see Siddal striving to convey a woman's yearning intensity for death, but the technique just was not there.

Indeed, despite the years of Rossetti's tuition it is hard to see much progress in his pupil, although her watercolours did achieve the jewel-like PRB colours. Why, one wonders, was Ruskin bowled over by Siddal's work? Because it was naive, it sprang from the heart, and it suggested to him the honest-to-God grotesquerie of the medieval craftsman. Lizzie Siddal was the Pre-Raphaelite Pygmalion. Plus, of course, she was "a stunner".

Not all Siddal's acquaintances found her lovely – too thin, too pale. But at the Ashmolean exhibition in Oxford we look at Rossetti's Guggums, his Dove, through the artist's besotted eyes. This is a lovely exhibition and a sizeable one with photographs of works which could not be borrowed. The hardback catalogue by Virginia Surtees is remarkable value (Scholar Press, £7. 50) although its author resolutely sticks to the old view of Siddal.

The drawings spin their familiar spell of languid beauty and the poignancy of doomed love; Lizzie curled in her basket chair, Lizzie with her hair fanned out wedge-shaped like a nun's coif, Lizzie reading with wrists drooping under the weight of the tome. You can almost smell the restorative beef tea. Maybe, as Dr Marsh believes, there was nothing much wrong with Lizzie. But Romantics will not be shaken from Rossetti's exquisitely tender vision. If you cannot be in Oxford, that most Pre-Raphaelite of cities before the show ends on 28 April, it will be at Birmingham City Art Gallery from 16 May to 17 July.

BBC Symphony Orchestra

BARBICAN HALL

The second, on Tuesday night, of young conductor Mark Wigglesworth's two concerts with the BBC Symphony at Barbican Hall presented both less and more of a challenge than the first given a week before. The symphony, Mahler's unfinished tenth, in Deryck Cooke's performing edition, was harder to bring off than that of the previous week, Shostakovich's tenth.

But the specially commissioned new work, Howard Skempton's *Lento* was a great deal easier to conduct, and to play, than had been Dominic Muldowney's complexly layered *Three Pieces for Orchestra* included on the earlier programme. Whereas that work called for click tracks to help with the co-ordination of its different temporal levels (Wigglesworth didn't avail himself of one, however), Skempton's work is the simplest of steady unfoldings, a quiet pulsing monolithic structure (13 minutes) built out of elementary chords mainly heard on strings, and taking on a radiant, reverent Vaughan Williams-like quality: the piece was like the *Tallis Fantasia* rewritten by Satie, though the real influence was probably that of the Polish composer Henryk Mikolaj Górecki.

Skempton is one of the more interesting of those English eccentric-experimental composers who originally came to prominence in connection with the Scratch Orchestra (founded by him and Cornelius Cardew in 1969). Most of his music so far has been minimalist miniatures for piano or accordion; this is his third orchestral piece, though his first for professionals. Its scoring follows that of Wagner's *Parsifal* prelude, a lustrous account of which preceded it on the programme, but it makes extremely restrained use of the available woodwind and brass. This very reticence gives the trombones and bassoons of the central episode a special savour, and the oboe later on a particularly poignant air.

The orchestra happily brought out the good-naturedness and simple beauty of the piece. They were far more taxed by the Mahler work, and showed it in roughness of ensemble, errant intonation and general unloveliness of sound. Wigglesworth valiantly held on, but the orchestra and big five-movement structure got the better of him. Glimmerings of Mahlerian greatness there were, but on the whole this performance made Cooke's realisation of Mahler's sketches sound hopelessly tentative.

Paul Driver

Il barbiere di Siviglia

COVENT GARDEN

Any lovers of Gluck need to have a sense of humour. After years of waiting to see *Iphigénie en Tauride* at Covent Garden they find this season's projected new production cancelled and replaced by yet another revival of *Il barbiere di Siviglia*, that most calculated of comedies from which Gluck's noble visions could not be further removed.

In fact, a sense of humour is probably useful in dealing with this revival as a whole. It is said that the extra rehearsal time has been used to devise a re-staging, but what Stephen Unwin has produced could hardly look more like every other *Barbiere di Siviglia* if it tried, even down to the gratuitous choreography. As soon as an ensemble is ticking away, the singers start bobbing up and down like cog-wheels in a novelty clock.

The good news is rather that the Royal Opera has used the opportunity to bring in some important new voices. For a couple of years we have been reading enthusiastic in *Opera* about the progress of the young American Jennifer Larmore and this is the first chance for us to hear her fine mezzo, glowing in the middle, sure if a little thin at the top. Her Rosina, sung with every note firmly in place, won a deservedly warm welcome.

The problem was that promising vocal talents, such as hers, had not been moulded into a single comic style. The most satisfying all-round performance came from the Bartolo of Gregory Yurisich, as he alone gave us a real character rather than a rag-bag of reactions seized on the spur of the moment. A guardian so big and burly, a real bully bursting with all-Australian vocal muscle, could well have swept the floor with a lesser Rosina.

The Figaro was François Le Roux, plying all the tricks of his trade in an exhausting display of winks and smiles, chuckles and grimaces. It was good, though, to hear again his grainy French baritone and keen words. Bruce Ford sang a sensitive Almaviva, even if his conscientious way of delivering the runs without aspiration lost something in clarity. And somewhere in a world of his own there was Barseg Tumanyan as Basilio, the black bass voice and sunken eyes looming from beyond the grave.

Carlo Rizzi led a sparkling musical performance, with bright primary colours and the orchestra trained to deliver chording short and sharp in the best Rossini manner. To have an Italian in the pit for Rossini when there is none on stage is a very wise safeguard. No "inutile precauzione" that one, to be sure.

Richard Fairman

Alastair Muir

American newcomer Jennifer Larmore as Rosina

Rolland & Hamelin

WIGMORE HALL

The Canadian cellist Sophie Rolland and her compatriot Marc-André Hamelin are performing all Beethoven's cello-and-piano music at the Wigmore. They delivered half of it on Wednesday, with the rest (the op. 102 sonatas and the variation-sets) to come next Thursday – for which there are still tickets. A word to the wise is very much in order here: their playing offers, first and foremost, unadulterated musical pleasure.

Admittedly there were moments on Wednesday when Hamelin's forceful attack shaded his partner's gentler voice. They have toured their Beethoven conspectus around North America, to much larger halls, and hadn't quite adjusted their balance for this one. But in none of the Wednesday sonatas – the two early ones of op. 5, and op. 69 in A – is the piano anything less than an equal, forthright partner; and where we usually hear a cello with a politely reticent accompanist, Hamelin was properly forward, characterful and brilliant (with his piano-lid fully open: extra marks to Rolland for unselfish courage).

Not since Sviatoslav Richter "accompanied" Rostropovich have I heard this music expounded with such even-handed creativity. The special appeal of this partnership lies in their musical reconciliation between distinct temperaments. Hamelin is not only a master of early-Beethoven style but a virtuoso of parts, whereas Miss Rolland's address, despite her rich, penetrating tone (on a lovely three-centuries-old instrument from Brescia), is lyrical and "inward". They answered to each other superbly, but there was never any doubt about their individual differences. In each sonata, that was pure gain; Beethoven left space for piquant friction of just this kind.

Both of the op. 5 sonatas prefix a thoughtful Adagio to a robust Allegro, and follow it with a springy finale. To each of them Miss Rolland brought luminous candour, and Hamelin incisive point and energy. For the more expansive op. 69 they found a relaxed, sweetly communicative manner, and a contagious lilt in both the scherzo and the bustling Allegro vivace (which they repeated, even better, as an encore). A wealth of expressive detail sprang to the ear as if new, with no hint of anything but selflessly committed interpretation. We should welcome Miss Rolland back as often as possible – and the prospect of a solo recital from Hamelin would be seriously exciting, too.

David Murray

Alastair Muir

Claire Skinner and Emma Chambers

Invisible Friends

COTTESLOE THEATRE

This is Alan Ayckbourn for children, with a touch of Roald Dahl thrown in. Dahl wrote his best stuff for the young, but that did not stop older people liking it. And that is what Ayckbourn is after in *Invisible Friends*. In a programme note to the Cottesloe production, he says that theatre "can only be enriched when the audience ages are thoroughly mixed". He has written plays for children before: he has started doing it again, he explains, "to attract the adults as well".

The formula – and it is a formula – works. Here is an Ayckbourn family, not terribly happy but chugging along together. Father is a van-driver who spends most of his time asleep in front of the television. Mother is a bit of a drudge. Son Gary is at a polytechnic learning to be a bookie: at home he lies on his bed and listens to rock through headphones. The only one with imagination is daughter Lucy who invents an invisible friend called Zara to relieve the monotony and to have someone to talk to.

The trick is that Zara comes to life. She has magical powers, makes the rest of Lucy's family disappear and brings in her own family in their place. Zara's lot are on a rather higher social level, not wholly at home in 162 Sycamore Street – "just past the traffic lights but before you get to the zebra crossing" – and unused to eating fish fingers. Lucy is dismissed as "dirty, untidy and smelly". She begins to pine for her own family to return which, as in any good fairy story, eventually they do.

The rest is a mixture of zany Ayckbourn and traditional children's entertainment. Sometimes the two blend perfectly together. There is a splendid scene where Zara's family object to playing snap in the conventional way and insist on playing it with the cards face down. There is an equally good piece of comic business when Zara, still invisible, keeps switching around the corn flakes and the krispies at the family breakfast. On the more traditional level, familiar to children's shows throughout the ages, there is the attempt to make a cake: first botched, then done by magic.

There is not a lot more to *Invisible Friends* than that, save perhaps some mildly amusing social observation. Lucy's father is plainly into satellite TV: he watches it at breakfast for the boxing. And there is a little bit of a moral about Lucy being happier in the end with her boring lower class family than her more stuck-up friends.

Yet there does not need to be anything more to a show like this. Ayckbourn is right: it works if the age of the audience is mixed. There were quite a lot of children at the Cottesloe. *Invisible Friends* is strictly not for adults only.

Lucy is intelligently played by Emma Chambers; the direction is by Ayckbourn himself.

Malcolm Rutherford

INTERNATIONAL ARTS PREVIEW & EXHIBITIONS

The Salzburg Easter Festival opens on March 23 with Le nozze di Figaro conducted by Bernard Haitink. Those who predicted that the festival would not survive the death of its founder, Herbert von Karajan, have been proved wrong: the festival continues much as before, with the Berlin Philharmonic as resident orchestra and prices as high as ever - Sch3,300 ($305) for the best opera seats and Sch1,700 ($157) for orchestral concerts. The cheapest seat for the opera is also Sch1,700. But the festival, which depends on private support for its survival, has a large and loyal body of subscribers.

The Figaro production, staged by Michael Hampe with decor by John Gunter and costumes by Carlo Diappi, is repeated on March 27 and April 1. The cast includes Thomas Allen as the Count, Ferruccio Furlanetto as Figaro, Susanne Mentzer as Cherubino and John Tomlinson as Bartolo. Haitink also conducts two Karajan memorial concerts on March 25 and 30, with a programme including Bruckner's Ninth Symphony. Daniel Barenboim conducts the remaining four concerts, including Bruckner's Seventh Symphony on March 24 and Mozart's Requiem on March 29.

The main operatic event of the coming week is the world premiere on Tuesday of The Death of Klinghoffer by John Adams. Like Adams' Nixon in China, Klinghoffer has a libretto by Alice Goodman and deals with a recent event of international significance – the killing of an American tourist by Palestinian terrorists on the Achille Lauro cruise liner. The work is staged by Peter Sellars at the Monnaie in Brussels, with choreography by Mark Morris. The production, conducted by Kent Nagano, runs until April 2, and then moves to Lyon, where there will be performances between April 13 and 21.

Other operatic first nights include Pelleas et Melisande at the Berlin State Opera (Sun), reuniting the conductor Michael Gielen and the stage director Ruth Berghaus, who proved such a potent combination at the Frankfurt Opera in the mid-1980s. From the House of the Dead (Sun) is the latest instalment of Harry Kupfer's Janacek cycle at Cologne. Joachim Herz stages Janacek's Osud at Dresden (Wed) and Willy Decker stages Busoni's Doktor Faust at Leipzig (Sun). In the new Zurich production of Eugene Onegin (tomorrow), Wolfgang Brendel sings the title role and Francisco Araiza is Lensky.

EXHIBITIONS GUIDE

AMSTERDAM
Rijksmuseum Dutch Drawings from the Collection of Maida and George Abrams: 115 drawings mainly from the early 17th century, including works by Rembrandt and his school. Ends April 28. Closed Mon
Van Gogh Museum Dutch Painting 1880-1895, with 178 works tracing the artistic reforms pioneered by the generation after the Hague School. Ends May 26. Daily

BARCELONA
Fundacio Joan Miro Antoni Tapies: 40 objects and sculptures, as well as 50 works on paper and cardboard, by the Spanish abstract painter (b.1923). Ends April 14. Closed Mon

BERLIN
Museum fur Moderne Kunst From Expressionism to the Resistance: Art in Germany 1909-1936. First showing in Europe of the Marvin and Janet Fishman Collection, tracing the development of Expressionism and the reaction against it in the Neue Sachlichkeit. Ends April 28. Closed Mon
National Gallery Anselm Kiefer: 58 works by the German artist (b.1945) drawn from collections worldwide, including expressionist paintings and monumental steel sculptures. Closed Mon

CHICAGO
Art Institute Modern Art and Popular Culture, a study of the 20th century dialogue between art and commercial culture, with work by Duchamp, Warhol and Picasso. Ends May 12. Daily

DUBLIN
Municipal Gallery of Modern Art The Art Collection of the Berlin Galleries, with 250 works reflecting Berlin's place in the history of 20th century art, from Dada and the Neue Sachlichkeit to east German art of the 1980s. Ends June 16. Closed Mon

GENEVA
Galérie Jacques Benador Kim En Joong: recent paintings, mostly in an abstract oriental style, by the South Korean artist (b1940) who has lived as a member of the Dominican order in Paris since 1975. Ends April 20. Daily

LONDON
Barbican Centre Centenary tribute to the English painter Stanley Spencer. Also Man Ray: fashion photography from 1922 to 1942. Ends April 1. Daily
Hayward Gallery The Twilight of the Tsars: Russian Art at the Turn of the Century, with 500 exhibits from Soviet galleries showing art nouveau architectural designs by Shekhtel and Fomin, the revival of Slavonic and Russian craft traditions, the obsession with the East and the symbolist style of the era. Ends May 19. Daily
Royal Academy The Buhrle Collection: Impressionist and Old Master paintings, including works by Canaletto, Van Goyen, Cezanne, Van Gogh, Gauguin and Degas. Ends April 14. Daily
Tate Gallery Max Ernst: centenary retrospective of the German-born Surrealist, comprising 200 paintings, drawings and sculptures from collections throughout Europe and America. Ends April 21. Daily
Victoria and Albert Museum Fashion Photography: a study of postwar trends, with 200 classic photographs by Norman Parkinson, David Bailey and others. Ends April 28. Daily

MADRID
Museo Nacional Centro de Arte Reina Sofia Markus Lupertz (b.1941): 147 paintings, 68 works on paper and eight large sculptures by leading member of Germany's Neue Wilder group. Ends May 6. Also Masters from the Guggenheim Collection: from Picasso to Pollock, with 125 paintings and sculptures representing the main movements in 20th century art. Ends May 13. Closed Tues

MILAN
Palazzo Reale Settecento Lombardo: sacred and profane art from 18th century Lombardy, including 200 paintings by Crespi, Ricci and Borroni, and 100 sculptures and engravings by Calegari, Saltiero and others. Ends April 28. Daily

MUNICH
Villa Stuck Sculpture and Space: abstract sculpture and other examples of concrete art by Max Bill (b1908) and eight other established artists from Germany, Switzerland and Scandanavia. Ends April 28. Closed Mon

NEW YORK
Brooklyn Museum Alfred Bierstadt (1830-1902): 74 oil paintings by the American landscape painter. Ends May 5. Also Monet and his Contemporaries: five Monet landscapes alongside paintings by Pissarro, Matisse, Cézanne, Toulouse-Lautrec, van Gogh and Picasso. Ends June 3. Closed Tues
Metropolitan Museum of Art The Romantic Vision of Caspar David Friedrich: paintings and drawings from museums in Leningrad and Moscow. Ends March 31. Also The Fauve Landscape: Matisse, Derain, Braque and Their Circle, with 125 works showing the vibrant quality of landscape painting in France in the first decade of this century. Ends May 5. Closed Mon
Museum of Modern Art Liubov Popova: 55 paintings and 60 works on paper by one of the most original artists of the early 20th century Russian avant-garde. Ends April 23. Also Art of the Forties, documenting the early flourishing of American abstract painting, the recognition of Latin American art, and artistic activity in Europe during the second world war. Ends April 30. Closed Wed

PARIS
Centre Georges-Pompidou Juan Gris: Drawings 1915-1921, showing the vitality of colour that characterised Gris' work in comparison with other Cubists of the period. Ends April 1. Closed Tues
Galérie Maurice Garnier Bernard Buffet (b.1928), the French painter loved by the Japanese celebrates Views of New York in his characteristic spiky style. Ends March 29. Closed Sun and Mon
Hotel de Ville, Salle Saint-Jean Arturo Martini (1889-1947): the gently melancholy mood of bronze and terracotta works by the self-taught sculptor of the Valori Plastici group changes into voluptuousness with the female nude La Pisana. Ends April 7. Closed Mon
Musée Dapper Household Sculpture, 100 works in wood, ivory and brass from traditional societies in black Africa. Ends April 28. Daily
Louvre, Pavillon de Flore Joos van Cleve: an exhibition showing the Italian influences on the Flemish painter, who became a Master in Antwerp in 1511 and visited Genoa around 1515. Ends May 27. Closed Tues
Louvre (entry through the Pyramid) Treasures of Saint-Denis: for the first time since the French Revolution dispersed one of the most important collections of medieval art, this exhibition brings together the 60 remaining ornaments, ivories, precious manuscripts and coronation regalia which belonged to the Abbey of Saint-Denis. Ends June 17. Closed Tues

STUTTGART
Staatsgalerie John Latham: a 70th birthday tribute to the founder of the Artist Placement Group, with examples of Latham's burnt books. Ends April 21. Also Acquisitions 1983-90: drawings and engravings by Old Masters from the German, Italian and Dutch schools. Ends April 15. Closed Mon

VIENNA
Albertina Jean-Auguste-Dominique Ingres (1780-1867), 61 drawings and oil paintings from the Ingres Museum in Montauban. Ends April 28. Daily

WASHINGTON
National Gallery An exhibition celebrating the National Gallery's 50th anniversary and its architect J.R. Pope, in the context of 20th century architecture. Ends July 7. Daily

ZURICH
Kunsthaus From Leibl to Pechstein: drawings by ten German artists around the turn of the century, including Impressionist works by Menzel and Liebermann, as well as unpublished sketches by leading members of the Brucke. Ends April 21. Daily

FINANCIAL TIMES

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Opec after the gulf war

OPEC IS dead; long live Opec. Iraq's criminal misbehaviour may have ensured that Opec will not soon be what it was. Opec is changed, the difference being the self-confidence of its dominant producer. Newly confident in the guarantee given to its security, Saudi Arabia insisted at the two-day meeting in Geneva earlier this week that Opec will have to operate on its terms, rather than the other way round. Provided the Kingdom plays its hand with skill, the result could be globally beneficial. But it need not be. The game of chicken over quotas now in prospect could prove ruinous.

This is not just a concern for Opec. There is a global interest in the price of oil. It is not merely the world's most important commodity, it is one whose production and sale are determined almost entirely by governments. Ideally, they should deliver price stability around a gradually rising trend. Nobody knows what the right price for oil actually is. But present prices are at least in the neighbourhood of those that have ruled, except in the aftermath of the Iraqi invasion of Kuwait, since 1986. Decisions have been made on the basis of these prices. It would be most undesirable for those decisions to be invalidated at Opec's whim.

Saudi behaviour

The question then is whether Saudi behaviour is consistent with the needed price stability. It certainly was following Iraq's invasion. Opec did far better than generally expected in increasing output to compensate for the loss of Iraqi and Kuwaiti production. The daily output of Opec, other than from these two, rose from 18.9m barrels in the first half of 1990 to 22.5m barrels in early 1991. Saudi Arabia alone contributed over two-thirds of this increase, lifting its output from 5.6m barrels to a peak of 8.4m barrels a day.

It was to these increases in production and, subsequently, to the allies' success in the war in the air that the world owes the fall in oil prices from the peak of more than $40 a barrel last September and October, to about $20 today. Moreover, with the bulk of Iraqi production and virtually all of Kuwaiti production likely to be out of the market for years, Saudi Arabia and other producers must produce well over their quotas for a long time. If, for example, these suppliers were to return to their pre-war quotas, with Iraq and Kuwait still out of the market, Opec output would fall from 22.7m barrels today, to about 18m barrels. Such a decline would generate a price explosion.

Marginal adjustments

What is needed, instead, is marginal adjustments to current levels of production in the short term. The agreement reached in Geneva was for the current official Opec ceiling of 22.5m barrels to be lowered, voluntarily, to 22.3m barrels for the second quarter of 1991. The Saudis believe that, with Soviet output falling and stocks needing to be replenished, the market will be able to absorb this level of production at current prices. They are probably too optimistic, but the resultant fall in prices should be modest. In any case, with the world economy weakening, a limited decline in oil prices would certainly be better than the increase that the Opec hawks wanted Saudi Arabia to deliver.

If the near-term prospect looks tolerable, the same cannot be said for the longer term. With Saudi Arabia talking of raising its sustainable output to 10m barrels a day and rejecting any notion of returning to its official quota, a war over output seems certain.

Unless demand for oil explodes over the next several years, the world cannot absorb production from Opec of 27m barrels a day. Yet this is what Opec would deliver if the Iraqis and Kuwaitis were to return to the market at pre-war levels, without adjustment elsewhere.

Something will have to give. Since it should not be the price, Saudi Arabia will have to accept cuts in production. The only question is what proportion of the total cut in supply it will have to bear itself. If it refuses to be flexible about its output and market share, it will almost certainly find itself in a destabilising price war. The Kingdom may have delivered the opening shot in Geneva, but this battle has hardly started.

Employing the unemployed

THE UK government is dithering about a proposed temporary work scheme for the unemployed. Yesterday's unemployment figures will have added to pressure to announce such an initiative in the Budget.

The case for such an announcement is overwhelming. Together, the recession and the inflexibility of wage bargaining mean that UK unemployment will probably be above the EC average by the end of the year. Government-funded work programmes are an essential part of the mix in ensuring that the unemployed have the necessary skills, information and motivation to take up new jobs when the economy recovers.

Mr Michael Howard, the employment secretary, appears to accept the arguments for a temporary work scheme in principle, but is bogged down in an argument over who should run it. The bidders are his own department and the nationwide network of Training and Enterprise Councils, set up to revitalise Britain's training system.

The outcome matters. Although the Tecs, which are dominated by business leaders, still have a great deal to prove, they will be seriously undermined if the government decides they are not up to the task of administering this latest injection of public funds.

Also, the whole point of a localised public-private sector approach to training and schemes for the unemployed is that it is flexible and appropriate to local circumstances. The Tecs cannot be run as if they were simply an agency of a government department; they need to be able to read the market for their services and to tailor their products to that market to the maximum extent feasible.

Broader Tec role

The Tecs should therefore be asked to co-ordinate the scheme. They can then best ensure that as many jobs as possible are provided by the private sector and that the experience gained is thus most useful to the unemployed when they come to seek a "real" job again.

Another aspect of the row concerns the question of whether any new scheme should contain a fixed training component. The Tecs already have one programme, Employment Training, which provides vocational training and experience for the unemployed. Funding for this, however, is seriously inadequate given the speed at which the dole queues are lengthening.

Question of retraining

These are, however, separate problems. It is a mistake for the Tecs to argue, as some have, that all support for the unemployed must involve retraining. Many of those who lose their jobs in a recession, especially in a short, sharp recession, merely need to be tided over to the next job opportunity. Dogma is out of place in addressing the problems of the unemployed.

The government should be happy to see Tecs manage a portfolio of schemes and to seek to offer the best opportunity to each individual. Part of that tailoring also requires that the system of wages and allowances is structured in a way that does not encourage individuals to choose the wrong scheme for the wrong reasons.

Basically, temporary work schemes without training need to offer something like the going pay rate if they are to be attractive to the unemployed and avoid unnecessarily displacing other workers. Allowances for training schemes should be set according to different criteria. It is also important to get right the periods of maximum entitlement to any scheme. This is also one way of reinforcing restrictions on people drawing benefits for long periods while still turning down job available.

The government has since last autumn given the impression first that it did not believe a recession was happening and then that it did not need to respond to the rise in unemployment.

The chancellor should take his opportunity to put this right next week and Mr Howard should stop the infighting between his department and the Tecs. Making the Tecs effective will be his biggest challenge in the coming months; the stakes are very high.

Guy de Jonquières and Andrew Fisher chart the obstacles Daimler-Benz must overcome if its diversification strategy is to succeed

Sizeable challenge for the colossus

An improbable flash of humour livens up the austere Stuttgart office of Mr Edzard Reuter, chief executive of Daimler-Benz. On his desk is a brightly-coloured cartoon of a dinosaur, bearing the caption: "History is full of giants who couldn't adapt."

The message, however, is deadly serious. Since the 63-year-old Mr Reuter took over in 1987, he has pursued a visionary strategy intended to secure the future of Europe's largest manufacturing group by forcing the pace of its evolution far beyond the production of luxury cars and trucks.

Since the mid-1980s Daimler has gobbled up most of Germany's aerospace sector and a chunk of its electronics industry. After taking over the aircraft maker Dornier, it purchased electrical and electronics group AEG and took full control of the diesel and aero engine manufacturer Motoren und Turbinen Union (MTU).

In 1989, after tortuous and politically controversial negotiations with Bonn, Daimler acquired the government's 51 per cent stake in Messerschmitt Bölkow Blohm (MBB), Germany's main military aircraft company and a leading partner in the European Airbus programme. It has since raised its holding to 80 per cent.

Still unclear, however, is just what kind of animal Mr Reuter and other top managers want Daimler to become – and whether its headlong rush into unrelated fields will not pile up more problems than it is intended to solve.

Daimler says it has two goals. One is to offset stagnating vehicle sales by expanding into high-technology growth markets, particularly aerospace. The other is to strengthen the automotive businesses by applying advanced technologies developed by the recently acquired companies.

However, the group has still to satisfy sceptics in German industry and abroad that its grand vision makes sense. In its vehicle divisions, there is lingering resentment that hard-earned profits are being diverted into unfamiliar and risky ventures. The company insists, nonetheless, that diversification – a term it dislikes – is not starving its mainstream operations of investment funds.

It is still unclear just what kind of animal Mr Reuter and other top managers want Daimler to become

The strategy's most controversial aspect is its emphasis on technological synergies between vehicles, electronics and aerospace. While outsiders concede such synergies may exist, many doubt that acquisitions were needed to capture them. "If all you want is a glass of milk, why buy the cows?" says a top manager of another German automotive group.

Some industry experts also think Daimler has over-estimated the potential spin-offs from aerospace. They argue that, as a project management business which relies on integrating technologies and components obtained from outside suppliers, aerospace generates few innovations of value to car makers.

So far, Daimler can point to few important spin-offs. Indeed, there is some evidence that its synergy philosophy was an after-thought, intended to provide an industrial logic for acquisitions which sometimes seemed to owe as much to opportunism and chance as to long-term strategy.

An equally important question concerns the quality of Daimler's acquisitions, none of which is a market leader. Germany's aerospace sector has long been handicapped by its small scale, and though MBB owns 38 per cent of Airbus, it produces the technically less sophisticated parts of the aircraft.

AEG was rescued from near-bankruptcy, and though some of its operations are solid second-rank performers, it is still losing money. "The leaders in any type of business are not for sale," admits Dr Gerhard Liener, Daimler's finance director.

Furthermore, AEG is a pot-pourri of businesses. As well as microelectronics and factory automation, it spans mature businesses such as white goods, typewriters and office products, electricity transmission, traffic control systems and rail equipment. Daimler says it aims to use some of these activities to become a supplier of integrated transport systems.

Much will depend on conjuring from the acquisitions more than the sum of their parts. Dr Liener says it will take 10 years to reorganise and achieve acceptable profitability. With two-thirds of Daimler's equity secure in friendly hands – Deutsche Bank, leading German industrial groups and Kuwait are among its biggest shareholders – its top managers can take a confident long-term view.

However, the slowdown in the world economy and the weak dollar are making life harder for a group which earns more than half its sales abroad. "We are under pressure short-term, no doubt about it," says Mr Reuter. "We cannot wait for long-term developments instead of solving our short-term problems."

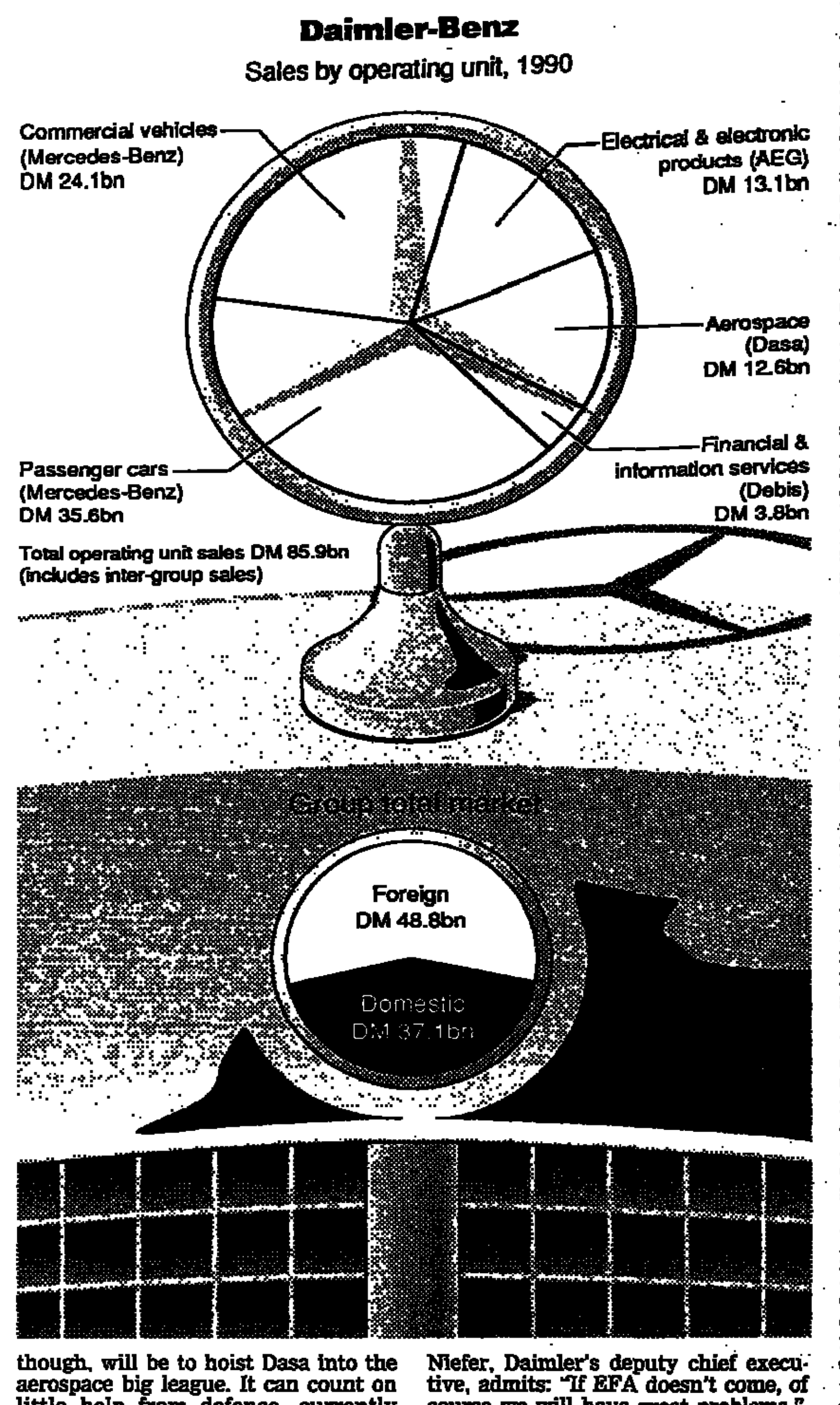
Simultaneously, the group must fend off growing Japanese competition in luxury cars, its largest business and source of most of its profits. Its hopes of retaining market leadership are pinned on an ambitious programme of new models.

Daimler also needs to rethink its production methods. Its efficiency lags far behind that of producers such as Toyota which, according to one authoritative estimate, needs one sixth the man-hours to assemble a luxury saloon. Unless the gap can be narrowed, Mercedes risks in the longer run becoming a high-priced niche producer.

In the past 18 months Daimler, has appointed new heads to its main businesses, grouped Dornier, MTU and MBB under the umbrella of Deutsche Aerospace (Dasa) and created a new services division. However, it is only now really tackling the task of rationalising its acquisitions – and trimming fat is as high a priority as charting future expansion.

AEG needs to stem heavy losses in office systems and in household appliances. Mr Ernst Georg Stöckel, who took over as president of AEG late last year, is considering turning both operations and the company's small factory automation unit into joint ventures. If a suitable partner cannot be found, he says, office systems production may have to be chopped.

Dasa, meanwhile, is combing through its newly-acquired activities to eliminate unnecessary duplication and peripheral operations. "When you buy a business, you may use only 70 per cent of it," says Mr Jürgen Schrempp, Dasa's president. "Good management also means knowing when to cut businesses."



Mr Schrempp's toughest task, though, will be to hoist Dasa into the aerospace big league. It can count on little help from defence, currently almost half its sales, where the prospect is at best for a steady contraction in orders during the next few years.

With production of the Tornado combat aircraft due to end next year on the basis of current orders, Dasa's hopes of remaining in fixed-wing military aircraft manufacturing hang on the planned European Fighter Aircraft (EFA). However, the German government is hesitating over whether to back EFA beyond the development stage.

Daimler executives insist Bonn will in the end authorise EFA production – or will decide to make a US aircraft under licence. But Professor Werner Niefer, Daimler's deputy chief executive, admits: "If EFA doesn't come, of course we will have great problems."

Hence, Mr. Schrempp has set his sights firmly on commercial markets, where he aims to make Dasa "an equal partner which can bring something to the table". That means acquiring the expertise in systems management needed to develop from a sub-contracting role into a credible international projects leader.

Mr Schrempp's strategy relies heavily on international alliances. A year ago, MTU joined forces in aero engines with Pratt & Whitney. The deal outraged GE, MTU's long-standing aero engine partner, but Mr Schrempp says Pratt offered MTU a bigger say in decisions.

Dasa has since agreed with Aerospatiale of France and Alenia of Italy to study development of a new commuter aircraft, after talks on collaboration with British Aerospace failed. It has formed a helicopter joint venture with Aérospatiale and is considering an alliance in satellites with either the French company or Britain's GEC-Marconi. Daimler is also discussing company-wide collaboration with Mitsubishi of Japan.

Ironically, however, Dasa's expansion plans are being more hindered than helped by its involvement in Airbus. While the German company has a big backlog of Airbus work, it is being severely squeezed by the weak dollar, the currency in which aircraft sales are priced. Though the German government partially guarantees Dasa against exchange rate losses on Airbus, the dollar has fallen below the DM1.60 rate beyond which cover ends.

A worried Daimler is now turning to Bonn once again for relief. One option, Mr Reuter suggests, would be for the government to write off the several billion D-Marks of subsidies granted to MBB before the Daimler takeover. But that would risk further angering the US, which is already challenging the legality of Airbus subsidies.

Another, more extreme, possibility would be to hand responsibility for Airbus back to Bonn, as Daimler is entitled to do under its agreement with the government. Dr Liener says that if no way can be found to contain losses in prospect this year, that may be the only answer.

More likely, though, Daimler will seek to cut costs by shifting more Airbus work to cheaper locations outside Europe, while stepping up its campaign to turn the unwieldy Airbus consortium into a private company with its own management. Both solutions, however, could cut directly across Dasa's ambitions for a bigger role in aerospace.

As a mere shareholder in a privatised Airbus, Dasa would be powerless to steer development and production work its own way. Indeed, a truly independent Airbus management such as Daimler wants would in theory have no obligation at all to give work to Dasa or other German sub-contractors.

Hence Dasa's immediate hopes of project leadership rest with its commuter airline project, in which it would be the single largest partner with a 50 per cent stake, initially. But the project faces many hurdles. Some industry experts doubt there is room for a new entrant in a market which is already overcrowded and subject to growing price competition.

An even bigger problem surrounds the financing of the project's $2.5bn development cost. Daimler wants the German government to subsidise half its share. But Bonn seems less than enthusiastic, and the British government has made clear that it will oppose on principle any decision to grant subsidies.

The UK is also worried about the threat to British Aerospace's position in small airliners. It argues that the latest project would be best carried out by the Airbus consortium, which claims it could develop the aircraft much more cheaply by basing it on its existing A320 airliner.

Thus the stage seems set for a tense confrontation, which could impose serious strains on European industrial collaboration. Furthermore, any sign that Bonn was seriously considering subsidies for the Dasa project would be bound to invite angry protests from the US.

In spite of this looming controversy, Mr Reuter continues to insist that he wants aerospace to develop into a normal competitive business, just like trucks and cars. However, it is starting to look as if mastery of complex political power games will be as important to Daimler's diversification strategy as the engineering excellence, product quality and marketing skills for which it has been renowned.

OBSERVER

Picture story

■ It is hard to know who'll be most upset by Walter Annenberg's generous decision to give his $1bn art collection to New York's Metropolitan Museum of Art. Frustration is not confined to other direct contenders such as the galleries of Philadelphia, the foundation of the Annenberg family fortune, and Washington.

Both Sotheby's and Christie's must be miffed at not getting the chance to auction one of the world's last great private collections: eight Cezannes, six Monets, five van Goghs, and four Gauguins among dozens of others. Just think of the lost publicity and commissions.

What's more, cash-strapped media tycoon Rupert Murdoch might also be feeling blue. If his News Corporation hadn't paid such a silly price for Annenberg's Triangle Publications in 1988, the donation to the Met would probably not have been anywhere near as generous. It has been estimated that Murdoch paid between $500m and $1bn too much for Triangle, publisher of the TV Guide.

But why The Met? While it has become a magnet for newly minted billionaires like Henry Kravis and Saul Steinberg, Annenberg is *old* money. The answer could well be one of those mysterious social dramas that will make a good read some day hence.

For the moment the moral seems to be that, if you don't build a private museum for your cultural loot, give it to an institution rich enough to keep the collection not just intact, but prominently inscribed with your name.

Due to...

■ Three weeks ago, with the UK public clamouring to know why its railways were reduced to chaos by a well forecast cold snap, British Rail chairman Sir Bob Reid promised to hold a press conference "sometime in the week beginning March 8" to spell out what had gone wrong.

Now, with the said week expiring, BR confessed it was not yet quite ready. It still planned to go ahead with the conference, perhaps next week... "but we haven't finalised a date yet."

These days, it seems, not even the excuses can be trusted to run on time.

On the skids

■ One of the first casualties of Saudi Arabia's increased dominance in the Opec oil-producers' organisation will be its current president, Sadek Boussena. He is also Algeria's oil minister, and his role at the head of the producers' cartel has often conflicted with his domestic interests.

Algeria's desire for high oil revenues and its subsequent demand for production cuts in a bid to boost prices has put Boussena in conflict with Saudi Arabia's more pragmatic approach to market stability.

The Saudis have made no secret of their strong distaste for the way Boussena has conducted Opec politics. Saudi delegates to this week's Geneva meeting rounded sharply on the Algerian over his comments to an Italian newspaper that Gulf oil-producers would be in the pocket of the Americans after the war.

Boussena's attempt to win allies amongst the smaller producers in a bid to force big production cuts on Saudi Arabia has also rankled the kingdom. His meeting with five other producers in Vienna during the Gulf conflict caused intense annoyance there.

But although it is not clear who will succeed him, it is unlikely to be Saudi Arabia's soft-spoken minister Hisham Nazer, who wields the real power. The Opec presidency has traditionally been held by one of the smaller producers with a need to build a coalition of views within the highly political cartel.

"I'm the receiver."

Whirligig

■ The revolving door at the top of the TSB is twirling even faster than its counterpart at the Midland Bank. Down goes Sir Richard Lloyd, long time chairman of TSB's Hill Samuel merchant bank, to deputy chairman. Out go chief executive Hamish Donaldson and Ted Emerson, the commercial-banking boss.

The ex-American Express mafia now running TSB is certainly tightening its grip on the wayward merchant bank. The main surprise is that Hill Samuel has headhunted a new commercial banking supremo, Charles Barrington, from the tiny Brown Shipley. Given Hill Samuel's recent lending record, the fact that the new team is slim on lending experience may be no bad thing.

Nevertheless, the scale of TSB's management upheavals is reminiscent of the whirlwind changes at the top of Midland, when a bevy of hot-shots from Chase Manhattan and elsewhere were brought in to show the troops how it's done. The net result was a demoralised staff and some expensive mistakes.

The comparison with Kleinwort Benson, which has reported another terrible set of results, is interesting. With one exception, none of Kleinwort's top executives has yet walked the plank. Perhaps some of them should.

Poles apart

■ "Going like a tram to Bondi", is how Australians describe something travelling faster than expected. And it certainly applies to an object which Adelaide's new police radar allegedly clocked at 45mph – a telegraph pole.

The case was cited by South Australia's Liberal MP Julian Stefani, in his campaign for an inquiry into the radar system, which has led to 35,000 bookings and nearly £1.5m in fines in the six months since it was installed.

Besides attributing high speeds to stationary objects, he claims, it has led police to misread licence numbers and so prosecute drivers who, at the time, were not on the roads at all.

The constabulary disagrees. "As far as we're concerned, the radar's quite reliable," a spokesman said.

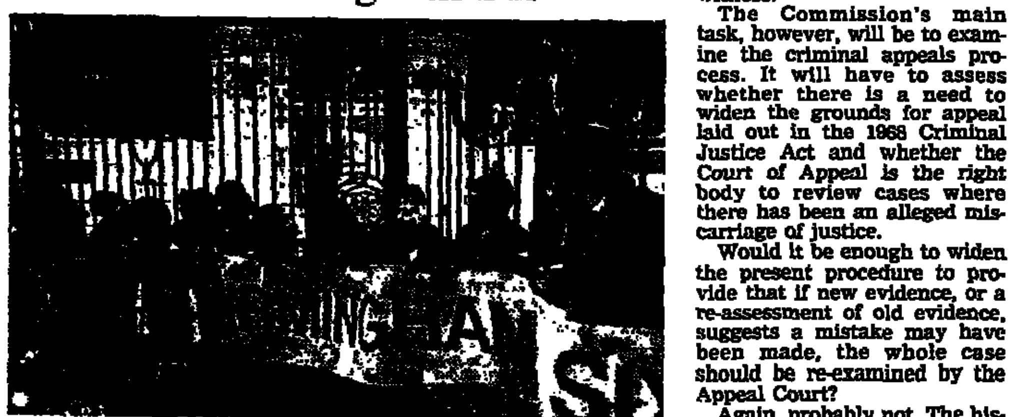
Feedback

■ The latest parish magazine of The Deverills and Crockerton in Wiltshire devotes a full page to four excruciating jokes. Besides provoking groans, they stirred the memory – every one of them has previously been printed, word for word, by Observer.

To make the shameless episcopal plagiarism worse, I was only reading the magazine in search of a new joke I could purloin myself.

Dim image of British justice

Robert Rice on the reforms needed following the release of the Birmingham Six



Supporters of the Birmingham Six keep a vigil outside Wormwood Scrubs prison last Sunday

It says something about the current standing of British criminal justice that the sorry tale of police misconduct and shoddy Home Office forensic standards which unfolded at London's Old Bailey in the past fortnight no longer seems shocking.

For the third time in less than two years, the criminal justice system has had to admit to having perpetrated and then perpetuated for an inexcusable length of time a grave miscarriage of justice.

First the Guildford Four, then the related case of the Maguire Seven and now the Birmingham Six. The three cases have much in common. They all arose out of the IRA mainland bombing campaign of the autumn of 1974. The Guildford and Birmingham cases both involved disputed confession evidence subsequently altered by the police, apparently to smooth the prosecution's path. The Birmingham and Maguire cases centred on unreliable and now discredited forensic tests.

After the release of the Guildford Four in October 1989 there were those who argued that the law's confession of guilt in that case had been an encouraging sign for British justice: by overturning their convictions, it was said, the criminal justice system had shown it was capable of admitting its mistakes and correcting them.

After the release of the Birmingham Six this argument is no longer tenable. All three cases are an indictment of a system which could allow such miscarriages of justice to happen in the first place and then after more than 15 years still show marked reluctance to correct them.

It is not good enough to lay the blame for these injustices entirely at the door of corrupt police officers. All those involved, from the most junior detective constable through the Director of Public Prosecutions to Lord Lane, the Lord Chief Justice who presided over the men's appeal in 1987, must take a share of the blame.

The questions now are what needs to be done to restore the tarnished image of British justice and to ensure (within the limits of human fallibility) that similar miscarriages of justice do not happen again; or, failing that, how to set up a mechanism by which they can be promptly and efficiently corrected.

Mr Kenneth Baker, the home secretary, has announced the setting up of a Royal Commission on Criminal Justice chaired by Lord Runciman of Doxford. Its remit will cover all stages of the criminal process. The issues it will need to concentrate on are already clear.

It must look again at police procedures and powers of detention and interrogation. After the Guildford case it was said by the former Lord Chancellor Lord Hailsham that a similar case could not happen as a result of the introduction of the 1984 Police and Criminal Evidence Act (PACE). The act introduced safeguards for the rights of suspects detained and interrogated in police stations.

Under PACE codes of practice, suspects can no longer be held incommunicado save in certain limited circumstances. They have the right to inform a chosen friend or relative of their detention. There is a right to legal advice and to have a solicitor present when being questioned. Also since the establishment of the Crown Prosecution Service the police are no longer responsible for both the investigation and prosecution of crime.

But do these changes guarantee that miscarriages of justice such as Guildford and Birmingham will be avoided in the future? Probably not.

For a start the Guildford, Maguire and Birmingham cases would still all have been classified as terrorist crimes. The suspects' detention and interrogation would therefore have been governed by the much more draconian procedures and police powers established by the Prevention of Terrorism Act. Even under PACE procedures the suspect's rights, for example, to see a solicitor or to take eight hours rest, free from questioning, in any 24 hours could be withheld by the police.

The Royal Commission will therefore need to look again at the rights of suspects detained by the police, including those suspected of terrorist offences. In particular, it should consider extending tape recording of police interviews with suspects, terrorist suspects included – or better still, recommend video recording them.

The Commission will also have to settle the issue of confession evidence. The Guildford and Birmingham cases have established beyond doubt the dangers of allowing convictions on the strength of confession evidence. Indeed, it could be argued that the absence of any requirement for some form of corroborative evidence, even if circumstantial, before someone can be convicted on the basis of a confession encourages police misconduct.

If corroborative evidence is not needed to secure a conviction the police may be sorely tempted to cut short an investigation by concentrating on obtaining a confession. In the Birmingham case, there *was* scientific and circumstantial evidence which appeared to corroborate the men's confessions. But the confessions formed an important plank of the case against them. Now that it has been discredited and it has been shown that the police tinkered with it, the Commission may well have to take a wider look at this issue.

The most sensible recommendation that the Commission could make in this area would be that confession evidence should be inadmissible unless it can be established beyond reasonable doubt that the confession was made voluntarily – in other words, in the presence of an independent witness.

The Commission's main task, however, will be to examine the criminal appeals process. It will have to assess whether there is a need to widen the grounds for appeal laid out in the 1968 Criminal Justice Act and whether the Court of Appeal is the right body to review cases where there has been an alleged miscarriage of justice.

Would it be enough to widen the present procedure to provide that if new evidence, or a re-assessment of old evidence, suggests a mistake may have been made, the whole case should be re-examined by the Appeal Court?

Again, probably not. The history of the judiciary's involvement in the Birmingham case has not been a happy one from Mr Justice Bridge's apparent hostility to the defence during the men's trial in 1975 through Lord Denning's rejection of the men's civil action against the police in 1980 to Lord Lane's forthright dismissal of the men's first appeal in 1987.

The judiciary's problems appear to stem from its reluctance to accept the fallibility of the system and its less explicable faith in the honesty and integrity of all police officers. Neither of these is likely to be easily overcome. A new body to investigate cases of alleged miscarriage of justice would seem to be the answer.

Several models have already been suggested. It could be an independent tribunal with the power to recommend – or even force – the Home Secretary to re-open cases, issue pardons or refer cases back to the Appeal Court. Or it could take the form of a permanent version of a standing investigatory body which owes more to the inquisitorial systems of justice common on the Continent than to England's accusatorial system. Constitutionally, the final decision on the overturning of convictions must rest with the Appeal Court, even if that decision amounted to little more than a rubber stamp.

The Commission must take its time in considering all these matters. For the sake of the British criminal justice system it cannot afford to get it wrong this time.

Joe Rogaly

At the centre of things again

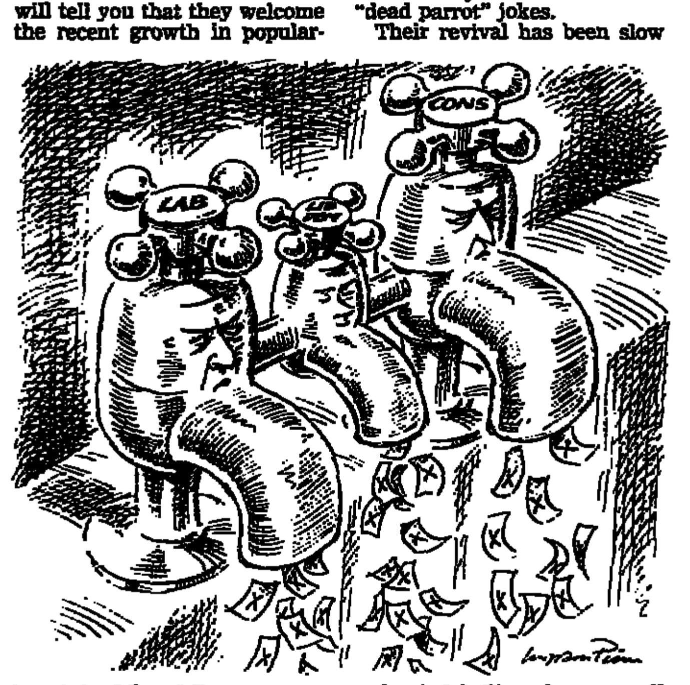
The Liberal Democrats may yet determine the outcome of the next general election. I do not mean that they have any chance of winning; the notion is absurd. It is not likely that they will hold the balance of power in a hung parliament, although such a pregnant outcome is possible. It is just that we cannot be sure how many votes they will drain away, in which constituencies, and from which of the two larger parties. The question *did* not arise last year or the year before, when Labour and the Conservatives seemed like the only shows in town. This year, following a prolonged absence, the perennial party-poopers of British politics are back.

They may fade away once more, but I doubt it. They seem set to attract at least 15 per cent of the votes when polling day comes; this projected minimum allows for a fall in their poll rating from their current highish teens down to, say, 10 or 12 per cent, which on the day would be augmented by the boost they usually get from campaigning. The effect of such a 15 per cent centrist vote could be significant. Add 5 per cent for assorted nationalists and others and the two main parties are left with 80 per cent of the electorate to go for. According to an ICM/Guardian poll carried out last weekend that 80 per cent is evenly split – Tories 39, Labour 40.

When Mrs Margaret Thatcher was in No 10 Downing Street and her government was particularly unpopular a strong centre party might have drawn off Conservative votes in some of the 100 or so marginal seats that Labour must win if it is to gain an overall majority. Something like that happened in February 1974, when 2m voters who had supported the larger parties in 1970 switched to the then Liberals. On that occasion the Tories lost twice as many votes as did Labour, so Mr Edward Heath was thrown out. It is not surprising that Labour privately affects to be pleased with the current resurgence of the Liberal Democrats. But now that the Conservatives are led by Mr John Major, a well-known Christian Democrat, Labour can no longer rely on this crucial ingredient.

Such hopes were realistic while the poll tax remained in place, but that final link with the Thatcher legacy will soon be broken.

If so the Liberal Democrats might positively help Mr Major, if they attract some wavering Labour supporters, or if their own strength is diminished by the growth in Labour's vote. Either way, the non-Conservative vote is split, as it was in 1983 and 1987. That would let the Tories win where they appear to be threatened by Labour. It would also save the Conservatives from defeat in those seats in the south-east in which the former Alliance ran a close second in 1987. It is for this reason that the Tories will tell you that they welcome the recent growth in popularity of the Liberal Democrats.



All such noises off are music to the ears of Mr Paddy Ashdown and his crew. Their theme at their conference this weekend will be "Labour cannot win", a slogan that may be wishful thinking but is in concordance with their long-term strategy. There will always be Conservatives, they argue, but need there always be a Labour party? Why not a different alternative government; why not the Liberal Democrats, one day? As the final week of the 1987 campaign showed, near -Tories who fear Labour vote Conservative; unafraid, they may risk the third choice. This explains why Mr Ashdown has openly fawned on Mr Major during question time in the House of Commons, even to the point of making himself look ridiculous when on Tuesday he offered the support of his tiny band of followers to a prime minister whose party is supposedly split over Europe.

The very fact that the above series of events can be discussed with a straight face is evidence that the Liberal Democrats are in better shape than at any time since the new party was founded almost exactly three years ago. This is not saying a great deal. In March 1988 they were bankrupt. They could not settle on a name. They were the butt of "dead parrot" jokes.

Their revival has been slow and painful. First they saw off Dr David Owen and his rump Social Democratic party. Then they endured a pathetic rearguard action by a few recalcitrants anxious to continue the old Liberal party, the other partner in the erstwhile Alliance. In the elections to the European parliament in 1989 the Greens suddenly emerged; they too have now faded away. The turnaround began after the May 1990 local elections when, contrary to expectations, it was seen that the Liberal Democrats had not been wiped off the map. Their poll rating moved into the 9 to 10 per cent band.

There was a brief upwards blip following their victory at the Eastbourne by-election in October. This has been repeated following last week's coup in Ribble Valley. They will doubtless fall back again, but perhaps to a 10 to 12 per cent level. Thanks to his performance during the Gulf war Mr Ashdown is now popular and, more to the point, well-known. His party organisation actually exists, and its debts have mostly been paid off. A run of bad luck seems to have been replaced by a run of good fortune. Three years ago there was nothing there. Now there is at least something.

The party is developing a distinctive line of market economics plus civic rights that could eventually become comprehensible to at least the better-educated voters. It favours better education and the taxes to pay for it, a federal Europe, a strong market economy, electoral reform, and a tough environmental regime. In each area it offers hard proposals, such as toll roads, a local income tax or the abolition of mortgage tax relief, that only a party that everyone knows will not take office could afford to make. As to parties that do stand a chance, there is no better place from which to steal policies than the Liberal Democrats' manifesto.

Mr Ashdown's strategy is cheeky, but it is not entirely without substance. For the opinion polls reflect a widespread belief that there will not be a Labour victory at the next election; yesterday's renewed flurry on the Stock Exchange suggests that the markets think much the same thing. This is nothing to do with fairness. The Labour party has been on its best behaviour under Mr Neil Kinnock. It is a highly professional model of, shall we say, a centrist social democratic party. It is putting out a new policy paper just about every other day and all of them are sober-sided, and potentially popular. Many of the ideas in the papers are eminently sensible. There would be no justice in Labour losing to a Conservative party whose management of the economy has been awful, but then politics has nothing to do with fairness. So Labour may have to face up to a fourth disappointment, with the other parties the gainers.

LETTERS

Group representation for employees

From Mr Norman Willis.

Sir, Your leader "A union offer to be refused" (March 12), which criticised the proposals now being debated within the Trades Union Congress for union recognition rights, is flawed by a fundamental inconsistency.

On the one hand you accept, albeit grudgingly, that individual workers have a right to representation and support in dealings with their employer, yet you would deny that right to workers who share problems and concerns and seek collective representation.

That is like saying that an individual worker who is the victim of unsafe working practices should be entitled to representation, but not a group of workers exposed to the same risks and dangers.

Of course, there are matters unique to individuals on which representation and assistance from their union must be allowed.

But the fact remains that the vast majority of people at work share terms and conditions with other workers and require representation and support as a group.

Currently, an employer can unilaterally refuse to negotiate with a union irrespective of the fact that his or her employees want to be represented by the union. The central aim of our proposals is to right that wrong.

Where a workforce, of its own free choice, has determined that they wish to call on the support, advice and expertise of a trade union to represent them, that free choice should be honoured by their employer – and where that is not forthcoming willingly it is right that the law should come to the aid of the workforce concerned. Such an orderly process would reduce unwelcome disputes, too.

Norman Willis,
general secretary,
Trades Union Congress,
Congress House,
Great Russell Street, WC1

ILG's collapse and the lessons from the US

From Mr David Sawers.

Sir, The debate about the government's attitude towards the collapse of the International Leisure Group and its airline, Air Europe, has overlooked a significant difference between British and US practice.

When an American airline gets into financial difficulties and seeks the protection of Section 11 administration, its operations are allowed to continue while the administrator seeks to get the airline into a financially viable state. When a British airline seeks the protection of administration, the Civil Aviation Authority suspends its operating licences.

The moral of the ILG/Air Europe affair is surely that the American system should be emulated in the UK, and there should be more opportunities to save financially-troubled companies from collapse.

David Sawers,
10 Seaview Avenue,
Angmering-on-Sea,
Littlehampton,
W Sussex

Real rate means sterling is probably over-valued

From Mr Ray Barrell.

Sir, I was interested to see Samuel Brittan's article last month ("Panic-mongers on the rampage", February 14) on the discussion of devaluation and the exchange rate. He reproduced the Treasury diagram of the real exchange rate, which showed that the real sterling D-Mark rate was around or below its average of the last 25 years.

This is interesting, but does not tell us whether sterling is overvalued.

The real exchange rate is a price, like any other, and its equilibrium level may change over time. The equilibrium real exchange rate for the UK will be influenced by the world prices for the products in which the UK specialises, and it will be influenced by savings and investment behaviour at home and abroad.

There is a considerable body of work to support the proposition that the equilibrium real exchange rate in the UK has been declining for the last 20 years.

We at the National Institute of Economic and Social Research have argued in a number of places that sterling is probably overvalued. This does not mean that we advocate a re-alignment of the ERM. We argue that in the current situation and for the foreseeable future the UK needs to be more competitive than it currently is.

As the real exchange rate is just a price, the market mechanism will eventually deliver the correct level through changes in the domestic price level, even if the nominal exchange rate is fixed.

The problem for policy-makers is to minimise the costs of getting there.

Ray Barrell,
senior research fellow,
National Institute of Economic and Social Research,
2 Dean Trench Street, SW1

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not handwritten. Please set the fax machine for fine resolution.

Enter the sober auditor, and a true and fair view of accountants

From Mr Matthew Patient.

Sir, A myth seems to be gaining currency in the press that bears little relation to the real world. David Waller's article, "Figuring out an agenda for reform" (March 11), reiterates the misconception that during the 1980s the international firms of chartered accountants "offered their corporate clients another important service: flexible profits".

He seems to believe that it was the auditors' skilful application of ambiguous accounting rules that helped companies to alter the appearance of their results.

Our experience of the 1980s was quite at odds with this description. A seemingly endless stream of company finance directors, some enthusiastic and others merely enquiring, appeared clutching the latest scheme invented by bright young financiers. These were usually from merchant banks eager to sell financing arrangements designed to flatter either earnings per share or gearing or both.

Enter the sober auditor, charged with judging whether the accounts would give a true and fair view. Only auditors and directors will know how many times auditors had to point out either that proposed accounting treatments were not acceptable within the rules or, even if they did meet the rules, that they would not give a true and fair view.

This is of course a proper role for the auditor. But it goes largely unsung because no-one publishes details of the accounting treatments that end up in the bin.

Sceptics should think for a moment of the damage that would be done to our credibility, not to mention the possible lawsuits which would ensue, if we did not properly fulfil this vital function.

Indeed, auditors and finance directors were worried at the damage to the credibility of accounts which was being done by the few that got away. It was for this reason that in 1987 the accountancy profession began a root and branch review of the accounting standards setting process. The new and tougher regime which emerged, with necessary legislation in the Companies Act 1989, is now up and running.

Only one statement has appeared so far, but indications are that with new independence and increased resources it will produce clear-cut standards.

The existence of a new Review Panel charged with investigating apparent breaches of standards and the law will make company directors think again before adopting an accounting treatment which might be called into question. The new Urgent Issue Task Force, by publishing decisions on controversial emerging issues, will stop companies shopping around for the opinion they are after.

We should not be surprised if the occasional failing still creeps through, but we should not shoot the auditor, who has sometimes been a lone voice seeking to ensure reliable accounting.

The profession has already done much to put in hand a regime which will help accountants to continue to uphold truth and fairness in financial reporting.

Matthew Patient,
Coopers & Lybrand Deloitte,
Plumtree Court, EC4

FINANCIAL TIMES
Friday March 15 1991

Stansted becomes London's third airport

Paul Betts explains why the £400m 'white elephant' may have a golden future

IS Queen Elizabeth going to open a new cathedral in the desert today? That is how the impressive £400m ($740m) airport terminal complex at Stansted in the Essex countryside near London appears to many people.

The opening of the new terminal will lift Stansted to the status of London's third airport after Heathrow and Gatwick. Yet it coincides with one of the most turbulent periods in British civil aviation history, prompted by the Gulf war and the UK recession.

BAA, formerly the British Airports Authority, the owner and developer of Stansted, has seen passenger traffic fall 22 per cent at its eight airports in the past 10 weeks. Gatwick-based Air Europe and its parent International Leisure Group, Britain's second biggest travel concern, have collapsed.

Those factors, compounded by changes in government air traffic regulations in the London area, have raised doubts over the future of Stansted – critics argue that the new airport complex will become an expensive white elephant.

Nonetheless, over the next 10 years Stansted is likely to provide a much-needed expansion chamber to absorb the long-term increase in air travel demand.

About 1.2m travellers use Stansted every year. The new terminal will enable it to handle up to 8m, and a £300m extension of terminal facilities during the middle of the decade will further increase capacity to about 15m.

The big international airlines have continued to seek to expand at Heathrow, the world's busiest international airport, or operate out of Gatwick, London's second international airport. Of the large airlines, only Air France has decided to operate out of Stansted.

BAA expects more big international carriers to turn to Stansted in the next few years to expand in the south-east of England, because both Heathrow and Gatwick will have become saturated. Mr Robert Crandall, *chairman of American Airlines*, confirmed yesterday that his airline intended to start flying a Chicago-Stansted service next year.

The arrival of American will represent a significant boost for the airport and is expected to encourage other big carriers to consider serving Stansted.

"We always saw Stansted developing a network of short-to-medium-haul services," says Sir Norman Payne, BAA's chairman. "Provided carriers get the right aircraft size and flight frequencies, there is a good market at Stansted for travellers based in north and east London and East Anglia."

Air UK, the regional carrier set up in 1980 in which KLM *Royal Dutch Airlines owns* a 14.9 per cent interest, has built up a strong base at Stansted and become Britain's third-largest scheduled airline. Stansted is also expected to attract more charter business.

Many of Stansted's difficulties are political. In the early 1970s, it seemed doomed to remain a small, quiet regional airport when the Conservative party government of the day decided to develop a new airport at Maplin Sands, off the Essex coast. The subsequent Labour party government cancelled the Maplin plan in 1974 and Stansted was back in the running as the preferred site for any future airport for the London area.

Before the current development of Stansted received the go-ahead in 1985, the project was caught up in a huge political storm. The airport is likely to be at the centre of another political controversy when plans to expand the terminal and possibly build a second runway are formally tabled.

The government set up a working party last year to consider future air travel requirements for the south-east of England – options include a new runway and a fifth terminal at Heathrow.

Between now and 2005, even allowing for fluctuations in UK and world economic activity, the number of air passengers travelling in and out of the London region alone is expected to double from the present 65m a year to more than 120m. The Civil Aviation Authority believes a new runway in the London area will then become necessary. By all accounts, the most feasible new runway solution would be Stansted.

Most air transport analysts believe that there will be a significant increase in air travel before the middle of the decade, leading to the need for upgrading and expanding infrastructure on the ground and in the air. The future expansion of Stansted is expected to be part of that process.


Picture: Ashley Ashwood
The cavernous interior of the new terminal building at Stansted, destined to become London's third airport

Polly Peck close to buying ILG last year

By Richard Waters and Clay Harris in London

POLLY PECK International came close last summer to offering £250m ($462m) to take over International Leisure Group, Britain's second largest travel company which went into liquidation on Tuesday.

The deal would have combined two companies which have since become two of the *UK's biggest corporate casualties*.

The merger was proposed after ILG, owner of Air Europe and *Intasun*, reacted to its worsening financial position by asking Goldman Sachs, the US investment bank, to find it a *partner. ILG also held talks at* this time with Lonrho, the international trading group.

The price offered conditionally by Polly Peck, the *fruit* trading and electronics group headed by Mr Asil Nadir, compares with the £103m which Mr Harry Goodman, ILG chairman, and his backers paid to take the company private in 1987.

ILG had total debts approaching £500m when it collapsed last week. The company's administrators have not yet estimated the size of its net deficiency, in part because they have not been able to put a figure on its contingent liabilities.

Polly Peck's own concern about ILG's potential financial exposure on leased aircraft was the *reason it failed to proceed* with its conditional £250m offer in June last year. Just four months later, however, Polly Peck *itself went into administration* with total debts of £1.3bn. It had entered into detailed discussions and *mounted an exhaustive investigation* of ILG. "The books were open to us," one former director said yesterday.

Although ILG was showing a £100m surplus on its aircraft last summer, he said, there were hundreds of millions of pounds of potential *liabilities* because the company had guaranteed the residual value of the leased aircraft.

Another person close to the proposed deal suggested that Mr Nadir was persuaded not to proceed because of the likely *depressing effect it might have* on Polly Peck's share price.

If the deal had gone ahead, the two companies had *planned to try to buy Dan-Air*, a rival airline of Air Europe.

Goldman Sachs was a natural choice to seek a partner for *ILG. As adviser to British Cale*donian in 1987, the bank succeeded in playing Scandinavian Airlines System off *against British Airways to win* a £250m price tag for its client.

The bank's failure to find a buyer for ILG meant that the group, which was highly geared after its 1987 buy-out, was unable to survive the downturn in its business earlier this year caused by the Gulf war and UK recession.

Lonrho said yesterday it had not made an offer for ILG but refused to say whether *it had* taken part in talks last year.

Omni Holdings, the Swiss company which had the largest *single financial interest in ILG*, said yesterday that a more recent plan by Lonrho to buy a 20 per cent stake in Omni's *Harpener subsidiary would not* proceed.

David Churchill writes: Senior management from ILG's *holiday companies are planning* to revive some of its operations under new names if necessary. Mr Jeremy Muller, former managing director of Club 18-30, said he was trying to put together a financial package. Others are trying to relaunch a company around Select Holidays.

Baker holds talks in Moscow

By Anthony Robinson

MR JAMES BAKER, the US secretary of state, last night began a crowded two days of talks with Soviet leaders by briefing Mr Alexander Bessmertnykh, the Soviet foreign *minister, on the results of his* five-nation tour of Middle East states.

Before entering the talks Mr *Baker said: "We will be talking about the next steps,"* after his meetings in Saudi Arabia, Egypt, Israel, Kuwait *and Syria. Today he is due to* meet President Mikhail Gorbachev for wide-ranging talks expected to pave the way for a *summit meeting with Presi*dent George Bush, possibly in May. The summit was originally due to have taken place late in February but was postponed because of the Gulf war and as a sign of US disapproval of Soviet repression in the Baltic states.

Signature of a new strategic arms limitation (Start) treaty was expected to be the main feature of the original summit. US officials said that five or six very technical issues remained to be solved during the current talks.

Western allegations that Moscow violated the spirit of the Conventional Forces in Europe (CFE) treaty, signed in November, have cast doubt on Soviet intentions.

The west has accused the Soviet military of transporting *thousands of tanks* and armoured cars beyond the Urals and redefining three armoured divisions due for retirement under the CFE treaty as naval units. The accusations have been confirmed by conservative Soviet military officers publicly opposed to what they see as too many concessions made by the Foreign Ministry to the west.

Mr Baker's visit comes only days before a controversial referendum on the future shape of the Soviet Union on March 17. Radical, non-communist "democrats" such as Mr Boris Yeltsin, president of the Russian parliament, are seeking to turn this into a referendum on Communist party rule and Mr Gorbachev's leadership.

The US secretary of state plans to meet Baltic representatives.

US seeks closer links with Iran

Continued from Page 1

One requirement was that the money be paid into an escrow account in the Hague, where the US and Iran are seeking to resolve claims arising from the expropriation of US property after the fall of the Shah.

The US has pushed hard over the past year to speed up the claims process.

During the past six months, the US has sent several messages to the Tehran leadership through the Swiss government, which has represented US interests with Iran since *relations were broken off* 12 years ago with the seizing of US embassy hostages.

Furthermore, Iran kept its word in holding an estimated 137 Iraqi warplanes which took refuge after the outbreak of the Gulf war.

Like Syria, Iran is also believed to have been helpful in restraining terrorist activity.

Last week, US President George Bush signalled his interest in improving relations during an interview with Arab journalists.

"Iran is a big country. I don't think they should be treated forever as enemies by all the countries in the region."

Madrid faces rate cut dilemma

By Peter Bruce in Madrid

THE Spanish Treasury yesterday sharply cut its interest rates on Treasury bills for the second time in a month as the government reported a substantial fall in inflation.

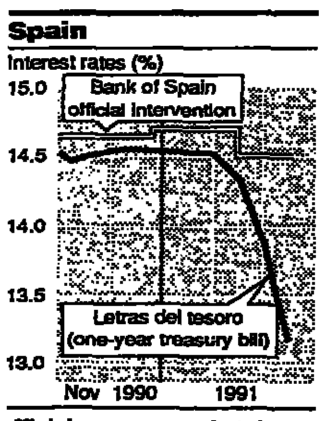
The developments placed the Bank of Spain in an increas*ingly difficult position as it* tried to resolve the conflicting aims of meeting domestic economic objectives and playing a credible role in the European Monetary System.

With the growth rates of money supply and credit running above official targets, the central bank is maintaining high interest rates in order to combat inflation. Meanwhile the peseta is the strongest currency in the EMS.

The national statistics institute announced the annualised increase in consumer prices dropped from 6.7 per cent in January to 5.9 per cent in February, falling below 6 per cent for the first time in two years.

The Treasury, seeking to trim bill rates to cut the cost of servicing its debt, more than half of which is raised in treasury *bills*, yesterday cut its interest rate on one-year treasury bills from 13.99 per cent to 13.23 per cent.

A day earlier the Bank of Spain had declined to cut its official money market intervention rate from 14.5 per cent – its second refusal in 10 days. The reason was its commitment to a firm peseta and high interest rates to combat inflation.



The result has been a decoupling of very short-term rates set by the Bank from longer-term bill rates. One benefit may be that lower yields on Treasury paper might discourage foreign investors and cool down the money supply. But for the moment, demand for Spanish government securities has never been higher as investors buy in anticipation of making capital gains as interest rates fall.

The central bank's difficult position was underlined by figures for consumer credit, which grew 26 per cent in January and 14 per cent last month. The year's target is 9 per cent. The broad money supply measure is growing at nearly double its target.

The Bank is so determined to hold interest rates high that on Wednesday it preferred to buy up French francs rather than relax policy when its decision not to ease rates sent the peseta above its upper limit against the franc in the EMS.

Some commercial banks have already begun to cut base rates – though ordinary Spaniards are still having to borrow at around 19 per cent – but *unless the central bank relaxes* its official rates soon, commercial rates may have to rise again soon.

Analysts say Mr Mariano Rubio, the Bank's governor, will wait for further evidence of a fall in inflation – the February figure was aided by the fact that electricity and house rent rises were counted in January – and other monetary aggregates before cutting official interest rates.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	17	63	Berlin	S	15	59	Caracas	C	28	82	Faro	S	18	64	Islamabad	F	24	75
Algiers	C	15	59	Biarritz	C	13	55	Casablanca	C	17	63	Florence	S	19	66	Istanbul	S	7	45
Amsterdam	S	15	59	Bombay	S	31	88	Chicago	S	-1	30	Frankfurt	S	13	55	Jakarta	R	31	88
Athens	S	15	59	Bordeaux	C	13	55	Cologne	S	17	63	Geneva	S	13	55	Jersey	Fg	10	50
Bahrain	F	21	70	Boulogne	F	12	54	Copenhagen	Fg	9	48	Gibraltar	S	18	64	Johannesburg	F	21	70
Bangkok	F	34	93	Brussels	S	16	61	Corfu	S	15	59	Glasgow	F	10	50	Lima	F	26	79
Barcelona	S	15	59	Budapest	S	15	59	Dallas	F	3	37	Helsinki	Sn	-3	27	Lisbon	S	17	63
Beirut	-	-	-	Buenos Aires	F	27	81	Dublin	C	11	52	Hong Kong	Dr	19	66	London	C	14	57
Belfast	C	10	50	Cairo	S	26	79	Dubrovnik	S	16	61	Innsbruck	S	15	59	Los Angeles	S	8	46
Belgrade	S	16	61	Cape Town	S	27	81	Edinburgh	F	11	52	Inverness	F	11	52	Luxembourg	S	15	59

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	18	64	Milan	S	14	57	Nicosia	S	16	61	Salzburg	S	10	50	Tenerife	C	20	68
Madrid	F	15	59	Montreal	F	0	32	Oporto	S	18	64	San Francisco	S	7	45	Tokyo	C	6	43
Majorca	F	16	61	Moscow	Sn	-4	25	Oslo	C	3	37	Seoul	S	3	37	Toronto	S	-3	27
Malaga	S	21	70	Munich	S	10	50	Paris	F	17	63	Singapore	F	30	86	Tunis	C	16	61
Malta	F	16	61	Nairobi	-	-	-	Peking	F	5	41	Stockholm	C	4	39	Valencia	S	16	61
Manchester	F	11	52	Naples	F	18	64	Prague	C	6	43	Strasbourg	S	15	59	Venice	S	15	59
Manila	F	28	82	Nassau	F	27	81	Reykjavik	Sn	1	34	Sydney	S	25	77	Vienna	S	15	59
Melbourne	S	18	64	New Delhi	S	25	77	Rhodes	S	16	61	Taipei	-	-	-	Warsaw	S	11	52
Mexico City	F	30	86	New York	C	4	39	Rio de Janeiro	C	37	98	Tangier	F	17	63	Washington	R	2	36
Miami	S	21	70	Nice	S	17	63	Rome	S	17	63	Tel Aviv	F	18	64	Zurich	S	10	50

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

The irresistible rise of equities

There was a certain gruesome aptness yesterday about the FT-SE index breaching 2500 on *the same* day that UK unemployment went back above two million. As it happens, the main impetus for the market *was once again international*: in particular, Mr Greenspan's remarks the previous day about the scope for lower US interest rates, which led to a jump in US equities. But the bigger than expected rise in UK unemployment, together with the smaller rise in average earnings, provoked a fresh burst of optimism about base rates. The forward sterling market is now discounting rates two full points lower by June, or a half point cut every three weeks or so between now and a snap election.

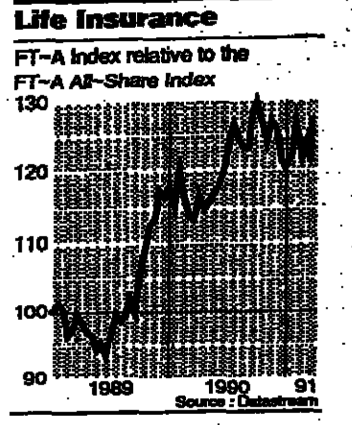
The more immediate question is whether the UK equity market can sustain these dizzy heights. One reason for think*ing so is the approaching end* of the March quarter. Another is the very high level of customer volume, which has run *at well over £1bn on 11 out of* the past 12 trading days. At some point, it may occur to the more prudent fund manager that locking in today's gains by switching into cash would produce a year-end return equivalent to 2,650 on the FT-SE, a gain of nearly 25 per cent on the year. But in a market which has gone up 450 points in the last eight weeks, such prudence may be in short supply.

Legal and General

Legal and General certainly chose the right day to have a plausible story up its sleeve. In normal conditions the surprise announcement of a £1.6bn attributable profit in its life fund would merely have softened the bad news of a 52 per cent slump in profits. In yesterday's market the shares jumped 9 per cent, dragging the rest of the life company sector in their wake.

By putting a figure on shareholders' interest in the life fund at this stage, Legal and General is only anticipating the new era of insurance company accounting which is about to dawn.

But amid the confusion about how the company actually worked out its sums, one is left wondering how much *difference the whole exercise* actually makes. The market has always known about embedded values and tried to *make its calculations accord*ingly. The company's own estimate was perhaps one third higher than the market expected.



In the absence of many of the assumptions behind the calculation, there is no knowing how accurate it will prove. Moreover, distribution of any of this profit appears to be out of the question for tax and cash flow reasons, even if the *money will be a helpful addi*tion to working capital for the purpose of writing new business and *facilitating* acquisitions.

But despite the flat outlook for mortgage and personal pensions business, the company is making aggressive noises about dividends for the current year. Assuming another 13 per cent payout the prospective yield is a reasonably appealing 5.8 per cent.

Kleinwort Benson

It seems a bit rich for Kleinwort Benson to blame one-off factors for a year which saw its shareholders' funds drop by 20 per cent. The bank's successes in the year, such as its involvement in the electricity flotation, may well prove hard to repeat. The problems which caused net losses of £54.5m seem more deep-seated.

Those shareholders who thought nothing could be worse than the Premier debacle (cost £34m) have to chew on a £16m loss from Japanese equity warrants, a net £43m of banking provisions and a £19m charge arising from the belated adoption of realistic depreciation policies on computers and the like.

There was even *a further* provision against Australia. *Granted, much of this is the* stuff of merchant banking; rewards come from taking risk, and Kleinwort at least main*tained its dividend. As for the* securities business, a restatement of commitment is doubtless necessary to prevent a run *on confidence*. One wonders nevertheless why Kleinwort has to be a market-maker in order to satisfy its corporate clients. *Meanwhile*, the *rather* cosy tie-up with Banque Nationale de Paris is unlikely to yield much in the way of extra revenue.

A more confident bank might have pursued its own presence in Europe or perhaps set up a separately-capitalised joint venture.

The shares at 355p are currently trading at a rare premium to net asset value in a sector which is being pulled along by the market. As ever, Schroders and Warburg look better bets.

United Biscuits

On one intepretation, *United* Biscuits' results are very much in character. A rise in full year earnings of just 3 per cent, *with a dip in the second half*, seems just right for a company with a spotty earnings record, too well run to be taken over, whose shares have done nothing against the market for the past five years.

It is possible, though, that a quiet revolution is going on behind the scenes. The new management would not wish to change much within UB's bastion of UK biscuits and snacks, though the struggling Ross Young's frozen food business is due to be sorted out one way or another within the year. More important is the fact that it has got out of its equally unhappy restaurant business, swapping it for £158m worth of acquisitions designed to build up a biscuit and snacks business on the European continent. At 381p, the shares are on just under 13 times prospective earnings. Though this is scarcely enticing, UB could still do well when the market's present confidence starts to falter.

TSB/Hill Samuel

The changes at TSB and Hill Samuel may be less significant than they look. The group has *had its share of structural* alterations, not all of them successful. This fresh outburst is the result of a combination of marketing policy – separating the companies into distinct *streams of clearing and corpo*rate banking – and internal political mayhem. The obvious question is how much difference all this will make to profits. The problem is not the TSB *retail operation* but Hill Samuel itself. It may take more than a change of management to sort out a medium-sized merchant bank which has seemed in search of a role since the middle of the last decade.

هكذا من الاصل